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DOMESTIC GOLD PRODUCTION

44
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G 56/2/
sec. 1-2

HEARINGS BEFORE THE SUBCOMMITTEE ON MINERALS, MATERIALS, AND FUELS OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS UNITED STATES SENATE

EIGHTY-EIGHTH CONGRESS

FIRST SESSION

SECTION I

S. 100

TO PROVIDE FOR A STUDY BY THE SECRETARY OF THE INTERIOR OF THE DOMESTIC GOLD MINING INDUSTRY, AND FOR OTHER PURPOSES

AND

S. 1273

TO ESTABLISH IN THE DEPARTMENT OF THE INTERIOR A GOLD PROCUREMENT AND SALES AGENCY, AND FOR OTHER PURPOSES

SECTION II

S. 2125

A BILL TO REVITALIZE THE AMERICAN GOLD MINING INDUSTRY

JULY 15, 16, 17, AND OCTOBER 23, 1963

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CONTENTS

SECTION I

	Page
S. 100-----	130
Departmental reports:	
Bureau of the Budget-----	131
Interior-----	131
Treasury-----	132
S. 1273-----	132
Departmental reports:	
Bureau of the Budget-----	134
Interior-----	133
Office of Emergency Planning-----	135
Treasury-----	134

STATEMENTS

Bartlett, Hon. E. L., a U.S. Senator from the State of Alaska-----	51
Behrman, Dr. Jack N., Assistant Secretary for Domestic and International Business, Commerce Department-----	45
Belin, Hon. G. d'Andelot, General Counsel, Treasury Department; accompanied by Dr. Leland Howard, Director, Office of Domestic Gold and Silver Operations-----	34
Brickel, Howard M., Rapid City, S. Dak., deposition of-----	138
Chenoweth, Hon. J. Edgar, a U.S. Representative from the State of Colorado-----	19
Church, Hon. Frank, a U.S. Senator from the State of Idaho-----	136
Conklin, William P., president, J. M. Ney Co., representing the Dental Gold Institute-----	80
Crowdy, James K., president, New York-Alaska Gold Dredging Corp., Nyac, Alaska-----	141
Day, Henry L., president, Day Mines, Inc., Wallace, Idaho-----	17
Fumich, George, Director, Office of Minerals Exploration, Department of the Interior-----	102
Groseclose, Elgin, Ph. D., of Groseclose, Williams & Associates, financial analysts and consultants-----	63
Johnson, Hon. Harold T., a U.S. Representative from the State of California-----	3
Kelly, John M., Assistant Secretary, Department of the Interior-----	94
Kremenz, Robert M., first vice president, Manufacturing Jewelers & Silversmiths of America, Inc-----	85
Kuchel, Hon. Thomas H., a U.S. Senator from the State of California-----	135
Mahan, Oris A., for Miners & Prospectors Association-----	139
McGovern, Hon. George, a U.S. Senator from the State of South Dakota-----	137
McLaughlin, Donald H., Homestake Mining Co., San Francisco, Calif., representing American Mining Congress-----	106
Moss, Lloyd H., Oatman, Ariz-----	31
Mundt, Hon. Karl E., a U.S. Senator from the State of South Dakota-----	104
Nugent, George A., president, Paramount Mining & Milling Co-----	114
Oddy, Charles F., secretary-treasurer, Optical Manufacturers Association-----	77
Palmer, Robert S., executive vice president, Colorado Mining Association, and executive director, Mining Industrial Development Board-----	57
Schroeder, E. Wendell, former administrative assistant, War Production Board-----	142
Thompson, Loren E., Parkersburg Die & Tool Co-----	118

COMMUNICATIONS

Behrman, Dr. Jack N., Assistant Secretary, Commerce Department: Letter to Hon. Ernest Gruening, chairman, Subcommittee on Minerals, dated Aug. 12, 1963.....	Page 49
Butler, Mr. Ernest, Culesac, Idaho: Letter to Senator Ernest Gruening, chairman, Subcommittee on Minerals, Materials, and Fuels, dated July 9, 1963.....	145
Egan, Hon. William A., Governor of Alaska: Telegram to Hon. Ernest Gruening, chairman, Subcommittee on Minerals, dated July 16, 1963.....	93
Fisher, Hugo, administrator, the Resources Agency of California: Letter to Hon. Ernest Gruening, chairman, Subcommittee on Minerals, dated July 19, 1963.....	140
Gordon, Louis D., executive secretary, Nevada Mining Association, Inc.: Telegram to members of the Subcommittee on Minerals, dated July 15, 1963.....	94
Huelsdonk, L. L., vice president, Best Mines Co., Inc., Downieville, Calif.: Letter to Senator Ernest Gruening, chairman, Subcommittee on Minerals, dated July 11, 1963.....	142
Maloney, W. G., Mining Association of Montana: Letter to Stewart French, chief counsel, Interior Committee, dated July 11, 1963.....	94
McLean, W. B., Coulterville, Calif.: Telegram to Stewart French, chief counsel, Senate Interior Committee, dated July 16, 1963.....	93
Wade, William Rogers, consulting mining engineer and geologist, Marysville, Mont.: Letter to Senate Interior Mining Subcommittee.....	143

ADDITIONAL INFORMATION

California's gold production, 1850-1958.....	12
"Gold in California," by William B. Clark, geologist, California Division of Mines and Geology.....	140
"Our Disappearing Dollar," and address by Merrill E. Shays, president, Golden Cycle Corp., Colorado Springs, Colo.....	23
"Research and New Concepts of Gold Recovery," by Donald E. Davenport, research consultant, Stanford Research Institute.....	8

SECTION II

S. 2125.....	182
--------------	-----

STATEMENTS

Allott, Hon. Gordon, a U.S. Senator from the State of Colorado.....	154
Bartlett, Hon. E. L., a U.S. Senator from the State of Alaska.....	150
Bowen, Max W., executive vice president, the Golden Cycle Corp., Colorado Springs, Colo.....	160
Chenoweth, Hon. J. Edgar, a U.S. Representative from the State of Colorado.....	157
Day, Henry L., president, Day Mines, Inc., Wallace, Idaho.....	187
Groseclose, Elgin, Groseclose, Williams & Associates, financial and investment consultants.....	168
Johnson, Hon. Harold T., a U.S. Representative from the State of California.....	158
McLaughlin, Donald H., chairman of the board, Homestake Mining Co.....	195
Metcalf, Hon. Lee, a U.S. Senator from the State of Montana.....	156
Ryan, J. Patrick, Bureau of Mines, Department of the Interior.....	182
Shoup, Merrill E., president, and Max W. Bowen, executive vice president, the Golden Cycle Corp., Colorado Springs, Colo.....	163

COMMUNICATIONS

Anderson, Eskil, Little Squaw Mining Co., Spokane, Wash.: Telegram to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 24, 1963.....	199
Bernes, E. K., president, Northwest Mining Association, Spokane, Wash.: Telegram to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 24, 1963.....	199

Cornelius, Berthea, president, Republic (Wash.) Chamber of Commerce: Telegram to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 18, 1963-----	Page 189
Day, Henry L., president, Day Mines, Inc., Wallace, Idaho: Letter to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated September 19, 1963-----	184
Egan, Hon. William A., Governor of the State of Alaska-----	184
Grinberg, P. Irving, executive vice chairman, Jewelers Vigilance Committee, Inc.: Letter to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 14, 1963-----	196
Gruening, Hon. Ernest, chairman, Minerals Subcommittee: Letter to Hon. Stewart L. Udall, Secretary of the Interior, dated October 18, 1963-----	149
Hax, William H., New York, N.Y.: Letter to Stewart French, counsel, Interior and Insular Affairs Committee, dated October 21, 1963-----	194
Inbody, R. R., president, Ferry County (Wash.) Prospectors & Miners Association: Telegram to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 18, 1963-----	189
Jasper, Karl W., president, Grandview Mines, and president, Metaline Mining & Leasing Co., Spokane, Wash.: Telegrams to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 24, 1963--	200
Kidd, Charles W., vice president, National Bank of Alaska, Juneau: Telegram to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 22, 1963-----	189
Latchem, E. C., president, Salmon River Mines Co., Inc.: Letter to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 16, 1963-----	196
Moore, Warren S., Duluth, Minn.: Telegram to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 22, 1963-----	188
Palmer, Robert S., the Colorado Mining Association: Letter to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 21, 1963-----	188
Parks, Albert, president, Mount Parker Mine, Juneau, Alaska: Telegram to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 22, 1963-----	189
Teske, A. J., secretary, Idaho Mining Association, Boise, Idaho: Letter to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 24, 1963, containing a statement of policy of the association---	200
Tuve, Rolfew, Republic News Miner, Republic, Wash.: Telegram to Senator Ernest Gruening, chairman, Minerals Subcommittee, dated October 22, 1963-----	189
Udall, Hon. Stewart L., Secretary of the Interior: Letter to Senator Ernest Gruening, chairman, Minerals subcommittee, dated October 17, 1963-----	148

ADDITIONAL INFORMATION

"Gold Gloom—South African Mining Boom Nears End; World Could Feel Pinch," from the Wall Street Journal, October 28, 1963-----	197
Idaho Mining Association, statement of policy-----	201
Report on Gold-Mining Industry Assistance Act (Australia)-----	192
Report on legislation in Canada on payment of subsidies for exploration and production of minerals-----	189

APPENDIX

American Mining Congress—Declaration of policy-----	217
"Chrysofiles and Chrysofobes, or Should the Price of Gold Be Raised or Lowered?" an address by Dr. W. J. Bussechau, chairman, Gold Fields of South Africa, Ltd-----	205
"Treasury's Gold Policy," remarks of Leland Howard, Director, Office of Domestic Gold and Silver Operations, Denver, Colo., February 7, 1963--	214

100
101
102
103
104
105
106
107
108
109
110
111
112
113
114
115
116
117
118
119
120
121
122
123
124
125
126
127
128
129
130
131
132
133
134
135
136
137
138
139
140
141
142
143
144
145
146
147
148
149
150
151
152
153
154
155
156
157
158
159
160
161
162
163
164
165
166
167
168
169
170
171
172
173
174
175
176
177
178
179
180
181
182
183
184
185
186
187
188
189
190
191
192
193
194
195
196
197
198
199
200

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SECTION I

DOMESTIC GOLD PRODUCTION

MONDAY, JULY 15, 1963

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 a.m., in room 3110, New Senate Office Building, Senator Ernest Gruening presiding.

Present: Senators Ernest Gruening, Gaylord Nelson, Len B. Jordan and Peter H. Dominick.

Senator GRUENING. This is an open public hearing on gold. Traditionally, the noblest treasure of the earth, gold means many things: It is a symbol. It is the touchstone of international finance and hence a cornerstone of today's commerce and trade. An important use of gold is as a monetary metal of the world.

Gold also is a metal, a commodity of our society. As a metal, it has many uses—some industrial uses, some medical uses, and large and varied artistic, decorative, and sentimental uses.

Because of the fact that all of these facets, the many concepts of gold are intertwined and interrelated by reason of inexorably rigid political controls in the United States over gold, the metal, inevitably these hearings must be general in nature. I do not presume to believe that this subcommittee can possibly cover, in depth, all of the facts, and all of the fantasies, concerning gold in the 3 days we have taken from other urgent public business for these hearings.

Rather we will try to focus these hearings on the problem of how to produce more gold from our own reserves within the United States with the hope and objective of reopening our once prosperous gold mines and putting our highly skilled gold miners back to work.

I want to emphasize here and now, and make the record clear, our approach to the problem is not one primarily of relief, of a temporary palliative for a dying, obsolescent, and defunct industry, however justified that approach may be.

As has been pointed out so often: Our country needs gold. Never a week passes but that persons of high responsibility in our Government and economy point to the dangerous, the perilous, outflow of gold from our national reserves.

At this very time when our country needs gold, perhaps as never before in our national history, we have gold, and in abundance, within and under the lands of our own country. And as I have said, we have the men with the brains, the knowhow, and the skills to produce this so greatly needed gold.

The situation is paradoxical, to use the mildest phrase of which I can think.

The basis of this paradox, which amounts to paralysis, is the fact that the price of gold harks back to the dim days of the great depression. Gold then was selling for \$20.70 an ounce. Gold, along with just about everything else in our economy, needed a stimulus. President Roosevelt raised the price to \$35 an ounce. This figure worked so well at the particular time and in the particular circumstances that it seems to have taken on a mystic sanctity to our economic statesmen. Although the world can change and our economy zoom from a gross national product of \$65 billion a year in 1934 to the current rate of \$580 billion a year, with, of course, a corresponding rise in costs of men and materials, there seems to be an incredible, to me, as well as to others in the Congress, resistance to plans which would allow payment to gold miners of an amount greater than the \$35 an ounce set in 1934.

In the past, notably during the last session of Congress, in the course of hearings on Senate Joint Resolution 44, introduced by our colleague, Senator Engle, great alarm was expressed by the executive branch of the Government that any move to treat gold as the commodity it is would immediately raise threats of devaluation of the dollar and international panic over our financial stability.

Now, as then, I believe it is entirely possible to separate consideration of measures to aid the gold mining industry from action which would unsettle international monetary transactions.

To shed light on this matter, I have corresponded with a large number of European and American financial experts and bankers to ascertain the views of those who are most concerned with the value of our dollar in international monetary affairs. I have put to them the question whether a plan which would permit payment of prices higher than \$35 an ounce would cause Europeans to fear devaluation of the dollar.

Sophisticated European financiers do not seem to frighten as easily as, during the last session of Congress, the Under Secretary of Treasury would have us believe. They are entirely capable of viewing, objectively, the relationship between gold as a commodity which can no longer be produced economically at the price allowed in the United States and gold as a measure of monetary value.

Despite the obstacles we have encountered in the past, some of us here in the Senate believe it is our duty to do something to produce for our country some of the gold it needs and at the same time reopen our gold mines and put our miners back to work. Accordingly, two specific gold bills are before us upon which we hope to receive facts and views during this hearing. They are S. 100, introduced by the distinguished Senator from Colorado, our colleague on the committee, Mr. Dominick, and S. 1273, which I introduced on my behalf and that of Senator McGovern, Bartlett, Kuchel, Mundt, and Bible.

I will direct that the texts of these measures appear at the conclusion of the oral presentations in these hearings. Any reports on either or both that may be received from any of the several executive agencies we have asked to comment on them also will be printed in full in conjunction with the text of the bills.

Briefly, S. 1273 would establish a Gold Sales and Procurement Agency within the Department of the Interior which would be authorized to pay up to \$105 an ounce for newly mined domestic gold, and which would regulate sales to industrial and commercial consumers in accordance with our country's other needs and in accordance with supplies.

S. 100 would, as would S. 1273, direct the Secretary of the Interior to make a survey of the domestic gold mining industry in order to develop information upon which remedial action can be taken. Pending completion of such a study, sales of gold would be prohibited for artistic, commercial, or industrial uses.

Neither bill would increase the price of gold for monetary purposes. This is not the objective of either bill; and I am convinced that neither measure would affect the international stability of our currency. They are domestic gold measures, designed to get American gold from the American earth, and to put our American gold miners back to work.

I am certain no member of the committee is wedded to the approach taken by either bill, and that all of us earnestly hope that these hearings will result in action which will revitalize the gold mining industry.

We are fortunate in having with us today as our first witness the distinguished Congressman from California, Representative Harold T. Johnson, representing the Second California District, an expert in this field, who has introduced legislation in the other body and can be considered an expert on this subject.

Representative Johnson, we welcome you here and we will be glad to hear from you in any way that you see fit to present your case.

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

Mr. JOHNSON. Thank you, Mr. Chairman and members of the committee. I want to thank the chairman and the members of this committee for setting these hearings on the very important matter of gold production in the United States.

Mr. Chairman, it is indeed an honor to be invited to testify before this committee concerning a problem which you and I agree is critical to our Nation's economy, and that is, of course, the gold mining situation and the serious depletion of our gold reserves and dependence for our scientific and commercial gold supplies upon foreign markets.

As you know, I am the author of House bill H.R. 4491, which is identical to your bill which you and several of your colleagues have introduced in the Senate.

I am speaking, of course, of S. 1273, which would establish a Gold Procurement and Sales Agency within the Department of the Interior.

I want to commend the wisdom of the sponsors of this legislation, because I feel that this proposal which you have set forth is the only realistic solution to the gold crisis which I believe is dramatically

pointed out by your statement made in connection with the announcement of these hearings that this Nation's gold reserves have now reached the lowest point since the depression nearly a quarter of a century ago.

First I would like to address myself to the situation as it exists in California. I feel qualified to do this since the 19 counties of the Second Congressional District, which I represent, constitute much of California's gold producing areas. Gold, to most people, is California's best-known mineral. It was the principal attraction to early day settlers and has continued to stimulate the growth of California.

Gold mining did not become a major industry in the State until after James W. Marshall's discovery at Coloma on the American River in 1848. The large output of gold from the rich virgin surface placers during the following few years had a profound effect on the United States and on the development of California. In 1852, these deposits yielded more than \$81 million worth of gold, which was more than 60 percent of the world production for that year.

Hydraulic mining yielded most of California's gold production from the late 1860's until 1884 when a court decree, known as the *Sawyer* decision, severely curtailed hydraulic mining by prohibiting the dumping of debris in the Sacramento-San Joaquin River systems. In the 1880's and 1890's extensive drift mining partly compensated for the loss of placer gold production by hydraulicking.

Lode mining in California began on a small scale about 1850, and became widespread in the late 1860's. Many of the major improvements in mining and milling methods were originally developed in California lode gold mines. From 1884 to 1918, lode mines were the chief source of gold in California. Floating bucket-line dredges, which were introduced in California from New Zealand in 1898, became highly productive in 1903.

California has been the source of nearly 106 million ounces of gold valued at approximately \$2,415 million. This total is far greater than that for any other single State in the Union and represents about 35 percent of the total U.S. production. Although world gold production has increased in recent years, chiefly because of increased output in the Union of South Africa and the Soviet Union, United States production, particularly that in California, has decreased greatly.

For many years the annual gold output of California was the highest of all mineral products of the State; but in 1907, gold was surpassed in value by petroleum and more recently by several other mineral commodities.

Gold continued to be the State's most valuable metallic commodity until World War II. The curtailment of gold mining during World War II caused a pronounced reduction in gold output from 1942 to 1945. Following World War II, gold production rose to an annual yield of 431,415 fine ounces in 1947. Since 1947, however, gold output has followed a diminishing trend.

In 1962, California's production was 106,272 fine ounces valued at \$3,719,520. This compares with production figures of \$4,329,000 in 1960; \$8,810,000 in 1955; \$14,424,000 in 1950; and \$50,948,000 in 1940.

This diminishing trend of gold production is attributable to several things, the most important being a fixed price for domestically mined gold—\$35 per fine troy ounce—coupled with increased costs for labor and supplies. Other factors are the expense of reconditioning shutdown mines, the depletion of workable deposits, especially dredging ground, increased real estate values in some of the gold districts.

At the present time there is only one major gold producer in the State. This is the Yuba Mining Division of Yuba Consolidated Industries which operates three large floating bucketline dredges on the lower Yuba River a few miles east of Marysville. The mines in Sierra County, the other main commercial source of gold in the State for the past few years, have gradually curtailed operations; in 1962 they were the source of less than \$300,000. However, several of the mines in this district, notably the Brush Creek and Sixteen-to-One, have recently received U.S. Government loans to do further development work.

Smaller amounts of gold are recovered from a few intermittently active lode and hydraulic mines and dragline dredges in the Sierra Nevada, Klamath Mountains, and the desert regions of southern California. In addition, some byproduct gold is recovered from several sand and gravel plants and from a few tungsten, copper, and lead-zinc mines. There are numerous weekend prospectors, "pocket" miners, snipers, and skindivers, but the production from these is extremely small and has not offset the gradual decline from commercial gold mining.

All of the large underground mines at such places as Jackson, Plymouth, Sutter Creek, Jamestown, Placerville, Bagby, Georgetown, Angels Camp, Grass Valley, Nevada City, Mojave, Randsburg, and French Gulch are idle.

Most have had their surface plants dismantled. The last active major lode-mining operations in California were the Empire-Star and Idaho-Maryland groups at Grass Valley, which were shut down in 1956, and the Central Eureka mine at Sutter Creek which was shut down in 1953. The last large dredge of the Natomas Co. at the extensive Folsom field east of Sacramento ceased operations early in 1962.

Now let us look at what has happened to the gold nationally. The United States once was the world's leading producer, but this was a half a century ago. Today it only produces 3 percent of the total supply. This decline came about when the gold fields of Africa came into production and the Soviet Union set out upon an active gold development program which continues so that South Africa and the Soviet Union are the major producers of gold in the world today. The United States, in a distant fourth place, has not had a real impact upon the world gold market since World War II when the War Production Board denied gold mines needed equipment and supplies and manpower. The mines have never been able to recover from the enforced idleness.

Rehabilitation required great investments, and higher prices for labor and supplies could not be met with an arbitrarily imposed, unrealistic \$35 per ounce price of gold which has been in effect since the 1930's.

Today production is at consistently low levels of only about a million and a half troy ounces, but, on the other hand, consumption continues to skyrocket. Recently compiled statistics of the Bureau of Mines show that the 1962 production amounted to 3,576,000 troy. Not only is this more than twice our production, but compared with the 1961 consumption of gold in science, industry, and arts, it is an increase of nearly three-quarters of a million troy ounces. Although studies have not been completed to determine the major areas of increase, the consumption of gold in this Nation has been rising constantly, primarily due to increasing national defense, space, and scientific demands. It seems only logical that this is where the greatest demand is.

You can see, therefore, that the problem which we discuss here today is not only one of the economic death of the gold industry and the communities in which it is located, but also the very security of our Nation.

Other nations of the world recognize this, while our own country, ostrichlike, seems to keep its head in the sand. World production continues to climb. Preliminary figures indicate that 1962 production of gold throughout the world has increased approximately 5 percent over the year before, reaching some 49.5 million ounces. Much of the impetus given this production in other lands can be directly attributable to incentive programs which have been instituted by practically every major gold-producing nation except the United States.

And this brings us to the final point I would like to make today.

It is ironic that today, when the Federal Government maintains an artificially unproductive price for gold which prohibits economic mining of this mineral, that we on the other hand are encouraging exploration for gold.

The Office of Minerals Exploration, in the past 2 years has awarded 14 contracts involving an expenditure of \$733,000 to private California mining concerns, eight of them to encourage the exploration for gold.

No one gives any consideration to the development of this gold, or the production of it. This situation cannot go on.

We must, Mr. Chairman, take positive steps to permit development and production of our gold. If we don't, some day in the not too distant future we will find ourselves dependent upon the Soviet Union and the troubled Union of South Africa for our gold supplies. This is not an acceptable prospect.

The time for action, Mr. Chairman, is now, not when we find ourselves without gold. It takes time, money, and much, much hard work to rehabilitate our gold mines. Let us get on with the job. Your bill, S. 1273, will do the job and I hope that your excellent committee, the Senate, and the Congress will see the wisdom displayed by you and the other Senators who have sponsored this legislation and speed passage of this bill.

Mr. Chairman, this has been a matter of concern to many of us for a long time. In the House of Representatives since coming to the Congress, I and many others as well as in the Senate have introduced legislation dealing with gold.

On May 8, 1961, hearings were held in Washington on the House side. During that session of the Congress and on November 27 we had a field trip to California visiting the gold mine areas to see what was left, to talk with people and learn more about the resource and the development that is needed. Then on November 28 we held a full day's hearing in the capital there where we heard from many, many witnesses who all believed that the legislation we were holding hearings on was very worth while, and that the industry could be revived if the Congress would enact certain legislation. Now on September 6, 1962, on the House side we heard from all Members who had introduced legislation in the House during the year 1962. And since that time new legislation has been introduced or old legislation reintroduced, and of late your bill and the Senator from Colorado's bill which you are hearing here today, tomorrow, and the next day. I want to say that in connection with your bill, placing a new department within the Department of the Interior, I think it is the proper place for the Gold Procurement Agency; the Department of the Interior handles all mineral matters at the present time that pertain to our public lands, and in that Department he has a very capable Assistant Secretary of the Interior, Mr. John M. Kelly. Under his supervision he has the Division of Mines in the Office of Mineral Exploration and many other offices, including the Office of Coal Research.

So I think there is precedent for this already on the statute books dealing with other minerals and other resources that we are trying to do something with to improve in the United States. Now I think the greatest setback that the gold mining industry was given was when Order L-208 was issued. The mines were deprived of the necessary supplies, manpower, and they deteriorated to such an extent that it was almost impossible for them to come back and open up.

Much of the equipment that was dismantled at that time from placers as well as lode mines were moved into other countries of the world by various mining interests and are probably still in use.

Now certainly if we were to place this department within the Interior, we know that there is a need in this country for better than 3 million ounces of gold. Today production only amounts to about 1.5 million ounces. Therefore it is mandatory that we either draw from the reserves or we purchase gold from other countries. I think that in many of the other countries their incentive programs are the things that are making the metal available to us. If it wasn't for the incentive programs carried on in such countries as Canada, the Philippines, Australia, South America, South Africa—we know nothing about what is going on in the Soviet Union countries, but at least these other countries are being subsidized to carry on their operations. I think in Canada they offer an incentive program that keeps production up to what it has been.

They open a new mine every now and then, and the sale of their end product, I think most of it is being sold to the United States. I think that in this country where we have a need for gold in our industrial, scientific, and arts and crafts fields, we could set up this office and carry on a proper program and finance it with an initial outlay of money and let the Secretary of the Interior, as called for in the bill,

make the necessary surveys, fix the price, carry on the transactions for gold with the people in this country who are using it. If we could increase production to take care of our everyday needs in this country other than the monetary consideration, we would be protecting the gold reserve we now have, and if we could ever get back to the 6 million ounces of production that we once had not so long ago, we could add to that gold reserve.

In the bill the price that the Government pays would be \$35 an ounce. So I see no harmful effect upon the financial picture throughout the world. As you stated in your early remarks that you have talked with many in foreign lands and in this country in the financial field, that this would not have any effect—certainly the incentive programs that are being carried on in these other countries so far have had no effect that we know of concerning the world market or the world price of gold.

Mr. Chairman, I think with that I am going to close by asking that I have permission to insert this graph which covers the mining operations in the State of California from the start back in 1948-49 where it went up to an all-time high of 81 million along about 1856 when the rich placer sources were being depleted, and then it sets up the effect that each piece of legislation has had upon the gold mining operation in our State, and as late as 1940 it shows a \$50 million production and today it is down to some \$3,719,000.

I think this graph that was prepared by our division of mines in the State of California will be a very graphic picture of what has happened to a great industry.

Senator GRUENING. The graph will be included at the conclusion of your remarks.

Mr. JOHNSON. Mr. Chairman, recently at a meeting that was held in Denver where Dr. D. E. Davenport was the speaker on a paper known as Gold Recovery; this is a paper that has been prepared under the sponsorship of the Stanford Research Institute; it was given in Denver on February 7, 8, or 9 in 1963, and it points up some of the latest technology that might come into being in the location, recovery, and production of gold.

Senator GRUENING. Would you like to have that included in the record?

Mr. JOHNSON. This is the only copy that we have here at the present time. It is in the file on the House committee's shelves or is a copy that is on their shelves, the only one, and as soon as my administrative assistant gets back I will furnish you mine.

Senator GRUENING. Would you like to have that included in the record?

Mr. JOHNSON. Yes, I would.

Senator GRUENING. It will be so included.

(The document referred to is as follows:)

RESEARCH AND NEW CONCEPTS OF GOLD RECOVERY

Paper presented at the Western Mining Conference, Denver, Colo., February 7, 8, 9, 1963, by Donald E. Davenport, research consultant, Stanford Research Institute

Most of you are familiar with the story of the two simple-minded fellows who set out to build a henhouse. Things progressed fine until they were putting on the siding. One fellow was working away on one side of the build-

ing while his partner drove nails into the opposite side. When the first fellow went around to see how his friend was doing, he discovered him taking a handful of nails from the barrel and then throwing about half of them away before proceeding to drive the rest of them. "Hey!" he said, "Why are you throwing all those nails away?" "Oh, the fools put the head on the wrong end of about half of them!" "Why you daddurned idiot!" the second replied. "Those nails are for my side of the henhouse."

So it is with all problems; there are several ways to solve them. An outsider viewing a problem may well believe he has a possible solution that is still different from all the ones being offered. This may only prove that he too is a little simple minded; or he may know a few facts which change the basic nature of the problem.

I'd like to suggest a solution to the gold problem which is almost simple minded, and then tell you some of the new facts which research has been uncovering which lead me to believe it is a realistic solution. I suggest that the solution to the gold problem is to develop a process that will enable us to mine gold at less than \$35 an ounce.

I suggest that this can be done at a cost which is equivalent to \$1 an ounce for the gold presently being mined.

It may have the potential of doubling, tripling, or even multiplying tenfold our present gold production. It certainly would change the nature of gold mining drastically.

By now you may well be convinced that I'm just another nut so let me spend a minute or two telling you about some of the difficult problems that the staff who helped me put together this paper have solved in the past.

Some of you may be familiar with a snow train. This represented a rather radical solution to Arctic transportation when it was developed about 10 years ago.

The same staff used some of the same ideas in developing the BARC which is a 100-ton cargo carrier and landing craft developed for the Army.

It was for a rather different client—the banking industry—that we combined the idea of a magnetic reading device with a high-speed check-sorting machine to form the basis for automating check handling for banks. Now a very large number of banks have automated their check handling procedures—a job that some of the large computer companies thought couldn't be done when the problem arose.

Quite recently research and development was brought to the laundry industry—and the result was faster, better washing techniques. The washing and drying portion actually occupy only a small section in the corner—the rest is a control console and a large hot-air heater used in the drying cycle. The final product was a machine that would wash and dry flatwear so fast that it took five people to feed it. The total cycle for a sheet, for example, was about 10 seconds and the cloth was washed cleaner and showed less wear than when washed by a standard process. The machine is in production now and will be in use shortly.

With this sort of background, and a staff of 2,000 that includes mining engineers, geologists, and geophysicists, as well as a normal array of chemists, physicists, automation experts, and economists, it is not too surprising that we became intrigued with the "gold problem."

Although our study of the problem has been brief, we have been able to bring together a list of research developments which could bring radical changes to the gold-mining industry. Many of these are in the early stages of development; others need only to be adapted to the specific problem. Because of my limited time today I would like to talk about only a single aspect which would appear to make possible significant changes in all phases of mining. I'd like to limit myself to instrumentation research and its implication for development of gold detectors.

Surprisingly enough, a gold detector that would be highly specific and quantitative does not seem out of the question. There appear to be several devices under development that could serve not only the prospector and the mining operation, but also serve as process control instruments in the milling operation.

In our space program we have been working on the problem of instrumenting lunar satellites such as Ranger so that they can identify the minerals present on the moon. One of the devices is based on detection of infrared emission. Since every mineral emits a characteristic spectrum, one needs only to find a way to identify the spectrum automatically, and one would have a detector

useful either for prospecting or for process control. After NASA has perfected it for lunar use it should be readily adaptable for terrestrial application, since most mining requirements are not nearly as severe as the requirements for rocket-based equipment.

Another instrument most of you know is the neutron source developed for the oil industry. Normal activation techniques are not nearly sensitive enough to use this method for gold, but there is a very interesting nuclear transition in gold that might form the basis for detection with a modification of this instrument. The major question concerns the intensity of interfering reactions which might occur because of the possible accompanying minerals.

A recently discovered effect which is very selective for gold is the Mossbauer effect. In this case the sample is bombarded by gamma rays of a specific energy, chosen to match the resonance in gold. The presence of gold is indicated by reflection of these gamma rays. This technique is still a laboratory tool since it needs low temperatures and quite a sophisticated gamma source, but it appears that it could be developed into a rapid and precise assaying technique.

Very recent advances in the design of two rather old instruments have made them very attractive possibilities for use as gold detectors. The first is the quadrupole mass spectrometer, which is tiny and rugged, as is highly desirable in such an instrument, and yet has all of the precision of a normal mass spectrometer. It handles only small samples, but is so extremely sensitive and fast that we have built seven of them to use around the institute.

The other instrument appears ideally suited to handling large volumes of material such as might be required in a process control operation. Perhaps surprisingly, the heart of this instrument is basically only a TV picture tube with all of the large tube face removed. It bombards the ore with an electron beam which causes emission of X-rays whose energy is characteristic of the elements in the sample. This technique has been known for some time, but engineering difficulties have kept it from being practical. Since the TV industry has worked hard at improving the beam current and developing power supplies for this tube, much of the basic work is done. With the recent modifications that we have made in its design, this instrument seems to have exciting possibilities as a detector.

With such an array of possible gold detectors available, it seems quite clear that some significant changes could be made in the gold-mining industry. The new instruments' effect on the prospecting phase should not be too different from that of the Geiger counter on uranium prospecting. They provide ready identification of lower grade ores and give a qualitative measure of their worth.

Another major change would be their effect on the mining and milling operations themselves. Here the detectors may be expected to serve a much more active role in allowing the separation of the gold-bearing rock from the gangue. When gold detectors are combined with the results of work on new concepts of brittle fracture, high-speed sorting devices, and developing concepts on the pumping of fluidized solids, one might end up with a mining process which is as weird appearing as the Buck Rogers-type mole.

It seems clear that simply incorporating the gold detector, with high-speed sorting techniques, into the present milling process would significantly reduce the cost of milling by removing the gangue at the earliest stage where it is

free from gold. If our present research on the fracture of brittle material can be extended to rocks, even the grinding process itself might be significantly modified to lower the cost further.

One final gain that such a portable, precision gold detector can give to the long-range future of gold mining results from giving the geologist a research tool with which he can go into a mine and study gold concentrations and their variations to help him understand better how the gold got there and where else he ought to find it. For the first time, he can gather large amounts of data about gold concentrations from the center of the vein to the surrounding country rock without ever taking a single rock sample.

These are some of the developments in the single field of instrumentation research which seem to make possible some new approaches to the problem of gold recovery. When these developments are added to the many other developments which are going on in many other relevant fields, it does not seem irresponsible to say that a research and development program aimed specifically at the development of a much improved gold recovery process could make striking reductions in the costs of mining.

Of course, to take these techniques and ideas from their present state and develop prototypes and field tests would require a research and development program of the order of \$1 to \$2 million. If our optimistic predictions are correct, however, this could produce a tenfold increase in our production of gold, which would be felt in many areas outside of mining.

Where can the support for such an extensive research and development program come? Can the gold industry, in its present weakened condition, heal itself? I doubt it.

Could Government research and development funds be justified for such a program? Or are the complicating factors of politics and economics too great where gold is concerned?

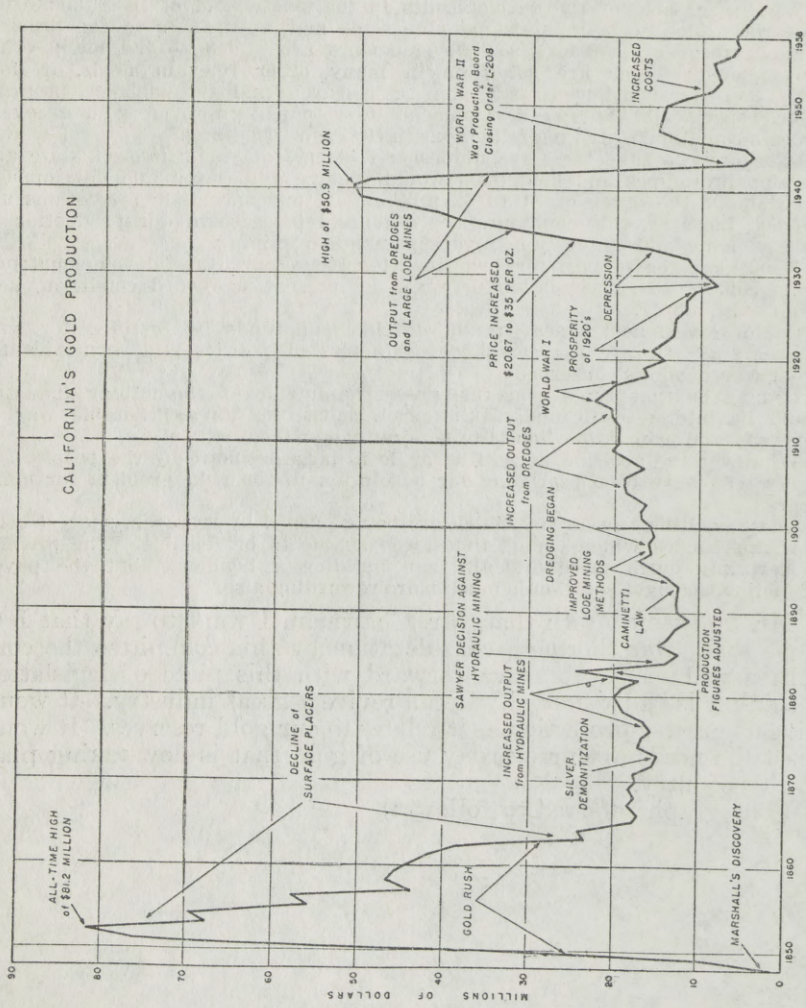
It may be that large concerns, presently outside of the mining industry, could be interested in undertaking such a venture as a profitable way to diversify and bring a new look to the mining industry.

Whatever the decision, it will be made in large measure by the people here today who have been searching for a solution to the gold problem for many years.

These exciting new areas, which are being opened by research, suggest some new approaches which sound almost too simple to be feasible. The problem is certainly much more difficult than building a henhouse, but the payoff of finding the right solution is much more rewarding also.

Mr. JOHNSON. With that, Mr. Chairman, I want to say that I do hope that after thorough consideration by this committee the committee will see fit to move forward with this piece of legislation. I think it is badly needed. It can revive a great industry. It would give us greater protection as it relates to our gold reserves. It would meet the needs of our everyday use of gold that is now taking place in this country.

(The graph referred to follows:)



Year:	Production	Year—Continued	Production
1955-----	\$8,810,000	1959-----	\$5,115,000
1956-----	6,783,000	1960-----	4,329,000
1957-----	5,980,000	1961-----	3,418,000
1958-----	6,489,000	1962-----	3,719,000

Senator GRUENING. Thank you very much, Representative Johnson. I would like to ask you one or two questions.

You, I know are familiar with the hearings that were held here last year, and the repeated statements of the representatives of the Treasury Department, the Under Secretary, Mr. Rosen, that any move to subsidize gold miners, any move to assist them in meeting the situation by which they are compelled legally to adhere to the price fixed 29 years ago would cause a panic and a run on the dollar.

You may recall that none of the members of this subcommittee who were present could follow his line of seasoning, and I doubt whether any of them do today. I think it would be useful for you, although your views have been stated, to discuss this a little further.

I feel that this is a very important issue. It is extremely difficult to understand why when the legislation could explicitly state that it involved no attempt to raise the price of gold, that it was merely a subsidy to the industry analogous to the kind of subsidies we give our farmers and is not unknown in other fields of our governmental activity, that this would cause this alleged strange alarm throughout the world and seriously affect the financial stability of the dollar. Would you discuss that, please?

Mr. JOHNSON. To the best of my knowledge, after talking with many, many people who have followed the gold situation from the time the fixed price of \$35 was attached to gold and on down through the years when Order L-28 was placed into existence, and then when the mines were reopened after World War II, and during that interim between World War II and the present day we have witnessed a great deal of new production in other countries.

I think in most of these countries they have in effect incentive programs, subsidies of some sort or another. To the best of my knowledge this has had no effect upon the price of gold throughout the world, or the dollar.

I think as far as our dollar is concerned, it is being pretty well chased now to the extent that it has eaten into our gold reserves.

I think if we were to offer a program to the gold-producing areas of the United States to bring back into production our gold mines, that it would strengthen the dollar instead of weaken it under an incentive program. There is a great deal of precedent for this. We have subsidized or granted incentive considerations to many of our minerals in the United States as well as other commodities. Take in the field of agriculture, we have certainly assisted that department greatly in increasing the agricultural production in this country or stabilizing it. We have entered into all sorts of programs including the Office of Coal Research, to try to bring back the coal-mining industry, to find new use, to find new methods for the production of coal.

The Office of Coal Research is carrying on a very broad program today. The Office of Saline Water, also under the Secretary of the Interior, has been granted a \$75 million authorization to carry on research and development in the reclaiming of water—sea water,

brackish water deposits—to keep our water picture current and to make sure that we have an adequate supply of water.

I think that gold is no different. I think the legislation spells it out as a commodity. It stipulates how it should be handled. I think you stated yourself that personally you had contacted many people in the financial field, mentioned the incentive program to them, and they told you that there was very little danger of it having any effect. So, Mr. Chairman, I would say that if we could get a realistic program started, it would stabilize further the dollar, I think, and give many of the people in this country a feeling of security that we are doing something about this gold-mining situation, that we are going to produce enough to take care of our own needs industrially, and if there was any surplus in the production, it could go into the Federal Treasury.

It is funny to me to see that gold production is going up throughout the world and that seemingly there is no lack of taking of the gold. Every ounce of gold that is being mined is being put to use somewhere. So I think that if we were to go into a program where we would bring our production up to what we think it should be, the gold would be used in our domestic use, and if there were any surplus, it would go into the Federal Reserve.

Senator GRUENING. Thank you very much, Representative Johnson. I suppose it would not surprise you if the reports from the departments concerned were adverse to these two bills which we have before us, as they have been in the past.

Mr. JOHNSON. I might say, Mr. Chairman, that we have been very disappointed with the support and consideration that we have asked for from the various departments of our Government from the administration down through the departments and agencies. I hope that after your hearings are completed and the testimony is printed, and that after thorough consideration that we have a top-level meeting where the Senate and the House can join and meet with the administration, from the President on down, if we fail to get any support in these hearings, to find out just what might be possible.

Senator GRUENING. I agree with you, that we should leave nothing undone to secure some kind of action. But it is somewhat depressing and discouraging that when the departments concerned render adverse reports on this legislation they do not come up with any constructive alternatives. Here is an extremely important industry in more ways than one which is gradually disappearing because of the artificial and arbitrary conditions imposed upon it. Yet no one in the executive branch in authority, and that applies—this is not a partisan matter—equally to this administration and the preceding ones, comes up with any alternative. Meanwhile the situation is worsening. I have just received these reports which came in this morning from the Department of the Interior on the two bills, S. 1273, which is identical with your bill in the House, and Senator Dominick's bill, and they are adverse. I think I will read them at this point because I think it useful to the witnesses here to have the commentary of the Department of the Interior on them, and that we can discuss this further.

Senator DOMINICK. Will you yield?

Senator GRUENING. Indeed I will.

Senator DOMINICK. I have a letter from Mr. Belin here, General Counsel of the Treasury Department, under date of March 15, saying: that the Department, at the request of the Committee on Interior and Insular Affairs, has prepared a report on the bill—this is dated March 14, 1963—and has sent it to the Bureau of the Budget for clearance in accordance with customary procedures.

Yet it is my understanding that we only got a copy of this adverse report this morning.

Senator GRUENING. We have not received the report of the Treasury Department, although we anticipate it would be adverse.

However, I think that I will read these two reports at the present time so that Representative Johnson and other members of the subcommittee may hear it.

First is the report on S. 1273, which, as I stated, is identical with the bill introduced by Representative Johnson in the House. [Reads:]

Your committee has requested the views of this Department on S. 1273, a bill to establish in the Department of the Interior a Gold Procurement and Sales Agency, and for other purposes.

We recommend against enactment of the bill.

S. 1273 provides—

1. That the Secretary of the Interior determine the price, up to \$105 per troy ounce, to be paid domestic producers in order to achieve maximum production of gold from mines in the United States.

2. That an agency be established in the Department of the Interior to buy gold at such price and sell for nonmonetary uses at this price.

3. That the price be redetermined annually.

4. That any excess gold be transferred to the Treasury at \$35 an ounce.

The Department is acutely aware of the difficulties which the domestic gold mining industry is experiencing. We have added gold to the list of metals and minerals for which the Government provides financial assistance to exploration, and this has stimulated additional interest in gold mining.

The Department of the Interior, however, is unable to recommend enactment of S. 1273, although its enactment would undoubtedly create substantial reserves of minable ore and provide incentive for reactivating many mines now closed. Such a provision would immediately give rise to a two-price system for gold, which the administration believes would be a threat to the value of the dollar in international markets.

The enactment of the measure would also give rise to many problems with reference to the industrial uses of gold. In the first place present industrial uses exceed domestic production. In 1962 net industrial domestic consumption was 3 million ounces (\$105 million). Domestic production was short of this by \$51 million. It's possible, of course, that the higher price would curtail consumption enough to balance with some increased production. In fact, unless stringent import controls were established on manufactured products containing gold, domestic producers of gold products would lose most of their business to foreign manufacturers.

Even if the substance of the bill had merit we do not believe that section 2 of the bill, authorizing the establishment of a Gold Procurement and Sales Agency and the appointment of a Director, is a desirable provision; and recommend that it be deleted. The Secretary has full authority to establish the internal organizations needed to administer the functions that would be authorized by the bill.

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

I would say in commenting upon this report that although it is adverse it does give us some encouragement in pointing out what the beneficial effects would be and it suggests some amendments which the subcommittee can certainly consider if and when we decide to report this legislation.

I will see that copies of these are furnished to all of the witnesses so they can have a chance to study them.

Now on Senator Dominick's bill [continues reading:]

Your committee has requested the views of this Department on S. 100, a bill to provide for a study by the Secretary of the Interior of the domestic gold mining industry and for other purposes.

We recommend against enactment of the bill.

S. 100, if enacted, would direct the Secretary of the Interior to survey the domestic gold mining industry in order to provide information which would assist the Congress in developing legislation to aid the industry. The measure would also prohibit sales of gold by any agency of the Government for industrial uses.

The Department of the Interior has general authority to conduct studies of the type described in section 2 of the bill, and some of the information called for is now available.

A report of the scope and depth stipulated in the bill, however, would require a major undertaking to update and supplement existing information. To present a reasonably definitive report to the Congress by December 31, 1964, would necessitate diversions of funds and personnel from other programs to a degree that would do irreparable harm. A study of this magnitude does not seem warranted, and if undertaken, would likely arouse speculation as to the intent of the Government regarding the future value of the dollar.

The Department will shortly issue a publication summarizing the production, history, and geology of the 507 gold mining districts in the United States that have yielded at least 10,000 ounces of gold each. The Department is also carrying on programs of research in extraction, evaluation of ore deposits, and in the application of new scientific techniques in mine planning and operation which yield information useful to the gold mining industries.

As a part of a broad program of stimulating interest in gold mining the Department has added gold to the list of minerals eligible for financial assistance under the minerals exploration program of the Department, and a number of new contracts give evidence of wide interest in gold mining.

The framework of the Area Development Act is available to such areas as may be suffering economic distress, and the Department has cooperated with the Area Redevelopment Administration in devising programs to aid economic development in mining areas where there is substantial unemployment.

The prohibition against sales by the Government for industrial uses would have to be accompanied by additional provisions of law to enable domestic fabricators of gold to obtain gold from other sources, either by purchase from domestic mines or by importation.

We interpret the intention of section 4 of the measure to require domestic fabricators to buy the production of domestic mines at premium prices. In this event domestic fabricators would lose most of their business to foreign manufacturers unless more stringent import controls were established on products containing gold. In addition, the payment of a premium price to domestic production would give rise to a two-price system for gold which the administration believes would be a threat to the value of the dollar in international markets.

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.

We shall have further analyses and comments on these reports which I think are open to very definite criticism for some of the things that they apparently fear and some of the things that they omit saying.

I don't know at this time, Representative Johnson, whether you want to comment on these reports or if you would like to have an opportunity to study them.

Mr. JOHNSON. I think, Mr. Chairman, I would rather study them over. I do see where in the Department of the Interior's report they refer to the activity in the Office of Mineral Exploration as it relates to gold. They have included that as one of the minerals that they would assist, and their applications recently, I understand, are running about 60 percent in the goldfields. If they are going to spend this money for exploration, I think certainly the Congress should give con-

sideration to development and production and technical assistance, and whether you set it on a price of \$105 an ounce or whether you put some other considerations in there, but I think that development and production and technical assistance is going to be necessary if the Government is ever going to recover the money that it is putting into these mineral exploration loans at the present time.

Something has to take place, and whether it is called a fixed price up to \$105 or whether it is assistance in the way of development funds, production, technical assistance, and access. Now many of these mines take considerable consideration in the way of access roads, and there is plenty of precedent for this already established in the various programs that are being carried on by the Government.

Seemingly the Treasury Department and somewhere in the administration they take offense as to these two prices for gold and say that it cannot be established. Well, maybe we are going to have to work out something where we can give assistance in another way other than referring to a new price for domestic gold. I think the letter from the Interior Department sort of opens up just a wee bit for new consideration, and I know from talking with the officials who are carrying out the exploration program as it relates to gold, feel that possibly there is a solution to the problem going into actual development, production, technical assistance, and access to these mining properties.

With that, Mr. Chairman, I want to thank you for the opportunity to appear here today.

Senator GRUENING. Thank you very much. Just wait a moment; other members of the committee might like to ask you some questions.

Senator Jordan?

Senator JORDAN. Mr. Chairman, I want to commend the Congressman for a very fair statement and assure him that I share his concern over these rapidly diminishing gold reserves and the plight of the gold miners.

I have a statement here, Mr. Chairman, that is so pertinent and it is not very long, I would like to read it. It is from one of our gold miners and rather than insert it in the record I would like to read it. This is from Henry L. Day, president of the Day Mines, Inc., of Wallace, Idaho. [Reads:]

My company is one of the very few gold mining enterprises that has been able to hold its head above the inflationary waters of rising mining costs and an undervalued price for gold. However, the going is rough and it is only a question of time until we will be forced out of business as has been the case with practically all other gold miners.

In general, my views conform with those set forth in the "Declaration of Policy" adopted by the American Mining Congress at its September 1962 meeting in San Francisco, which policy statement, as regards gold, I helped to draft. This policy states:

1. Current efforts to preserve the Nation's gold reserves be intensified.
2. The gold standard be restored, with the dollar and other major currencies redefined in terms of gold and made freely convertible.
3. Treasury sales to industry to be discontinued, pending restoration of the gold standard, so that a free market in gold for industrial purposes can be established.
4. A program of bonus payments be authorized as an interim measure to stimulate domestic production of gold and prevent complete destruction of the gold mining industry.

I believe this statement represents the fundamental views of all those interested in the gold mining industry, whether present producers, past producers that have been forced to the wall, or prospective producers.

With respect to S. 1273 I call your attention to the purpose of the bill encompassed in the first seven lines to the effect that the Secretary of the Interior must determine a price not exceeding \$105 per ounce required to achieve maximum gold production in the United States. Maximum production may be defined as 6 million ounces annually which was the approximate rate achieved in this country just prior to the outbreak of World War II. In recent years the annual output has dropped to about 1,500,000 ounces.

At the same time requirements of consumers for artistic, commercial, and industrial uses have increased to 3 million ounces annually. Hence there has been an internal drain on the U.S. monetary stock equal to the difference between these two figures. S. 1273 would prevent such a drain as it would require consumers to pay a price to the gold miners sufficient for them to achieve maximum production of 6 million ounces annually, or twice the present consumptive rate.

As an interim measure, pending the reopening of a free gold market either by removing the present prohibitions upon the purchase and sale and holding of industrial gold, or by restoration of the gold standard, I favor S. 1273 as a means of stimulating the domestic production of gold and preventing the complete destruction of the gold mining industry. Since the cause of the strangulation of our business is Government actions and policies it is reasonable to seek relief by Government action and policy correcting the unfavorable climate in which we have been operating.

U.S. losses of monetary gold have been most severe in recent years. This drastic situation could be corrected if the Federal budget (internal) were balanced and foreign aid were substantially reduced or eliminated. Such action is contrary to the administration's recommendations to the Congress. Hence the gold mining industry sees no alternative but to seek legislative relief. This can be best achieved, in my opinion, by the adoption of S. 1273 which I unreservedly endorse.

The primary purpose of S. 100 is to have a thorough study of the condition of the gold mining industry made by the Secretary of the Interior and reported upon not later than December 31, 1964. It also would prohibit the sale of gold by the U.S. Government to U.S. consumers during this period of time. There is no question but that a comprehensive study is desirable and that U.S. consumers should pay a price for gold at least equal to the cost of production. I believe that this objective can better be accomplished by the adoption of S. 1273.

Respectfully submitted.

HENRY L. DAY,

President, Day Mines, Inc., Wallace, Idaho.

Senator GRUENING. Thank you very much, Senator Jordan. I think that is a very valuable contribution. Mr. Day is to be congratulated on submitting this precise presentation. I note in connection with some of his comments, in the Interior Department's report on S. 100, I find the statement:

To present a reasonably definitive report to the Congress by December 31, 1964, would necessitate diversion of funds and personnel from other programs to a degree that would do irreparable harm.

I find it difficult to understand such a statement. We have in the past few years diverted tremendous sums of money and personnel to assist mining in foreign countries, and I find it difficult to understand why to do that for our own industry would do irreparable harm.

I hope to be able to question some of the Interior Department officials as to what that irreparable harm would be.

Senator Dominick?

Senator DOMINICK. Mr. Chairman, I just want to make one more comment. In the same report in the very next sentence it says:

A study of this magnitude does not seem warranted and if undertaken would likely arouse speculation as to the intent of the Government regarding the future value of the dollar.

I might say in passing we have just had two meetings of the Joint Economic Committee here at which the Secretary of the Treasury and the Under Secretary were up, which were directly concerned with the future value of the dollar at the present time before we had taken any action as to a study of this kind.

As a member of the Banking and Currency Committee this has come up in almost every hearing we have had and came up very strongly in the debate on the floor of the Senate in connection with the repeal of the Silver Purchase Act, which you may recall. So speculation on the future value of the dollar is rampant in everybody's mind at the present time regardless of whether we have a study. This seems kind of a too-late-and-too-little statement to make in a report of this kind. I want to also congratulate Congressman Johnson, with whom I had the pleasure of serving on the House Interior Committee. I know how hard he has worked on this problem. I think his contribution here has been very helpful.

Mr. JOHNSON. Thank you.

Senator GRUENING. Thank you very much, Representative Johnson.

Judge Chenoweth, would you come forward? We are very happy to welcome a member of the House who has achieved distinction in both the judicial and legislative branches.

Representative Chenoweth, we will be very glad to hear from you. You are coming from a State that was once preeminent in gold mining and I know you have a real feeling on the subject.

STATEMENT OF HON. J. EDGAR CHENOWETH, A U.S. REPRESENTATIVE IN CONGRESS FROM THE SECOND CONGRESSIONAL DISTRICT OF THE STATE OF COLORADO

Mr. CHENOWETH. Thank you very much, Mr. Chairman, and members of the committee.

I appreciate that warm welcome, Mr. Chairman. I want to commend you on holding this hearing. I know that you have long been a champion of the gold cause, and I commend you on those efforts.

Senator GRUENING. So far with not much success but we shall keep right on.

Mr. CHENOWETH. We are not easily discouraged so we will have to keep going. I am happy to see my good friend from Idaho here, Senator Jordan, and my colleague from Colorado, Senator Dominick, who has long been a champion of gold and been very diligent in his efforts to do something about gold.

Mr. Chairman, I appear here today on my own behalf and also in behalf of Mr. Merrill E. Shoup, of Colorado Springs, president of the Golden Cycle Corp., and many other gold mining companies, and Max W. Bowen, executive vice president of that corporation, both of whom I think have appeared before this committee in previous hearings.

Mr. Shoup has been ill. I am happy to report that he is making substantial progress and we feel very encouraged over his improvement. However, he stated the doctors indicated that they would prefer he not make the trip to Washington at this time to appear before your committee, and he wanted me to convey his greetings and

appreciation to the committee for holding these hearings and to express his sincere interest in this subject.

Mr. Chairman, I represent the Cripple Creek gold mining district in Colorado. This district, as I recall, was second only to the South Dakota district in the production of gold through 1958. Mr. Johnson of California, who preceded me and has certainly been one of the outstanding champions of gold, indicated that California led in the production of gold through a certain period. As I recall the situation in more recent years, Colorado is running second to South Dakota in the production of gold. This production began in 1892 and since that time has produced over 19 million ounces of gold valued at \$665 million. That gives you an idea, Mr. Chairman, of the importance of that gold mining industry to Coloradans, to the economy of our State. What is the situation today, Mr. Chairman? All of the mines are closed in the Cripple Creek area. Not a single mine is operating. This has been the situation now for some time. Mr. Shoup found it necessary to close the Golden Cycle mill, which was the gold refining mill located at Cripple Creek. I believe he closed this mill on January the 1st, because there was no gold ore to refine.

That is our situation in Cripple Creek, Colo. This county has found it necessary to make application for inclusion under the Area Redevelopment Act and the accelerated public works program, seeking means of doing something for the community. Why? Because the gold mines are closed and the gold miners have no employment. That is the reason I am here today, Mr. Chairman, before your committee. I want to do something for gold. I want to get these gold mines open. I want to put these men back to work. You may say that may be a selfish attitude. It is to a certain extent but I think on the overall picture of this country we need gold. Not long ago you will recall even the President of the United States mentioned his concern over the drop in our gold reserves.

Senator GRUENING. May I interrupt you at this moment?

Mr. CHENOWETH. Yes.

Senator GRUENING. I would disagree with you that the purpose of putting people back to work is in any sense selfish. I believe that it is our major national problem. I think in our so-called affluent society a continual unemployment of 5 million people is a disgrace, and that any legislative or executive move that puts some of these Americans back to work I consider of the utmost priority and of the utmost importance and that there is nothing selfish about it. If the administration would pay a little more attention to that problem, we would be much better off.

Mr. CHENOWETH. I appreciate those moments, Mr. Chairman, and I know that you are very sincere in those. We want to put these men back to work and we could put them back to work if we could get the price for gold.

As I mentioned, even the President of the United States recognizes the seriousness of the gold situation some time back and took some steps to halt the export of gold to other countries. However, I think those efforts have been rather unsuccessful up to this time. We see our gold reserves continuing to decline. We want more gold. We are short of gold. We are concerned over what is going to happen

if these gold reserves continue to decline. Well, I don't know any way to get more gold except to produce more gold. We have the ore. The gold is there. But the miners cannot, of course, produce that at \$35 an ounce. That is their problem and that is what our present dilemma is: Mr. Chairman, you know of the efforts which have been made in the past to do something about gold. You have been the leader in much of that effort. I recall the meeting we had with Secretary Dillon, I believe, last year when the gold leaders of the Congress and some of the industry met in his office and sympathetic reception, and I think Mr. Dillon was to a large extent sympathetic with us but nothing was accomplished. Mr. Shoup and Mr. Bowen have been here. I have gone with them to Duncan Howard's office to discuss the figures about the increasing amount of gold going into industrial consumption in this country and Mr. Howard has been very, very helpful; as I say, very sympathetic, although we have not obtained all the information we wanted.

I feel we are going to increase the domestic consumption of gold and that is another reason why we certainly should get these gold mines open and increase the production of gold. I have four bills pending in the House, Mr. Chairman. One is a companion bill to S. 1273. We are doing everything we can in the House to do something about gold just as you are here. We have had repeated hearings on gold but up to this time nothing has been accomplished. The hour is late, but there is still hope that we can do something. I did not know about the unfavorable reports, Mr. Chairman, from the Department of the Interior until I heard you read them here this morning.

I am, of course, disappointed that those reports are adverse. I was hoping that we might get favorable reports. I am not concerned. It is just as to how we accomplish this objective. That is of increasing the production of gold, whether it is done through one department or another. We went to the Department of the Interior because it seemed to be there was no other place we could go, and that looked like the proper place where we could find some encouragement and perhaps offer some inducement to go ahead.

I am still hoping that may be possible.

Mr. Chairman, I want to call attention of the committee to an address by Mr. Shoup which is entitled "Our Disappearing Dollar."

I have furnished copies to the clerk and to each member, and I would like to ask Mr. Chairman, if it is in order at the conclusion of my remarks, that this be printed as a part of my remarks.

Senator GRUENING. Mr. Shoup's article, "Our Disappearing Dollar," will appear at the conclusion of your remarks. We were very happy to have him appear before us last year and are sorry he is ill.

Mr. CHENOWETH. He would be here today except the doctors told him not to come. I don't know of any greater champion of the gold mining industry in this country than Mr. Shoup. He has never hesitated to speak out. I think at times perhaps the discussion of gold hasn't been too popular. Mr. Shoup never wavered, never hesitated. He has certainly been one of the outstanding leaders of the gold mining cause in this country. He would be here today in person except for his illness.

In this article, Mr. Chairman, Mr. Shoup calls attention to the fact that we must have gold to support our currency. I won't go into the details of his very splendid address, but it is one which I hope will be widely read. He also calls attention to the fact that Russia is stockpiling gold at this time. While our gold reserves are declining Russia's gold is increasing. There must be some good reason for Russia wanting to increase her stockpile of gold, and other countries are doing the same, as I believe Mr. Johnson mentioned to you a moment ago. Mr. Chairman, there seems to be some prejudice against the gold mining industry in this country. I don't know just what it is. I am not able to put my finger on it. I think that it started back with the order L-208 in 1942. I was in Congress at that time, and I recall what the gold mining industry went through. No one is every able to figure out just why L-208 was issued. I think it is obvious it wasn't issued for the announced objectives, but it had its effect of virtually destroying the gold mining industry in this country. What happened to the gold mining industries in other countries? They flourished. I remember with order L-208 one of the announced objectives was to curtail output of machinery for the gold mining industry so we could use it in the war effort.

What were we doing? We were manufacturing gold mining machinery. For whom? For South Africa, not for the United States of America, but to promote the gold mining industry of South Africa. That is what is going on under L-208. I don't think that it saved any manpower for the war effort as I recall.

The gold miners were trained in mining gold and they weren't of any particular use in other occupations. I don't think very many of them went into the war picture. But the order did, I think, virtually destroy the gold industry and I don't think it has ever fully recovered. It hasn't recovered today. I am not going to go into the details of the loss of our gold reserves, Mr. Chairman. Of course, I think it is a very serious situation. I think it is something which requires national attention. I have been disappointed that something hasn't been done about it. I don't know what the present figure is. I haven't seen the recent reports. It is down to less than \$16 billion, I suppose around \$15 billion, and declining all of the time. It is stated that if the holders of these claims against this gold in Europe would demand payment in gold, we couldn't deliver the gold which we have agreed to do, and that would precipitate, of course, a very unfortunate situation for us, and I think no one knows just what the answer to that problem then would be. Well, Mr. Chairman, I want to again commend you on arranging for these hearings. You have a large number of witnesses and I don't want to take too much time. The reason I am here is I want to see something done about this gold picture. We have been holding hearings in the House, in the Senate for a long time. We have a number of bills in the House and the Senate. Some are before the Banking and Currency Committee, some are before the Interior Committees. We have hearings on the Interior bills but of course have never been able to get hearings on the bills referred to the Banking and Currency Committee.

In sincerely feel that we should do something and do it quickly and speedily for this gold mining industry, not alone to help the gold miners as such, not alone to put men back to work as we have discussed,

but for the overall good of this country, because if we continue to lose this gold, without taking any steps to replace it, I think one of these days we are going to find ourselves in a very critical dilemma, and no one knows just what we are going to do at that time.

We are just postponing the inevitable day. Mr. Chairman, I want to pledge my full support to S. 1273 and to S. 100, introduced by Senator Dominick. I am for any gold bill. I want to do something for gold. I hope that your subcommittee will report these bills and that the Senate will pass them, and we will try to do something then in the House.

We perhaps face a little more difficult situation there than you do here. We have many problems to overcome. But I am hoping that at this session of Congress we can go on record as passing legislation for the gold mining industry, because I think that is imperative to the fiscal integrity of this Nation and perhaps even to our eventual survival. Thank you very much, Mr. Chairman.

(The document, "Our Disappearing Dollar," follows:)

OUR DISAPPEARING DOLLAR

(An address by Merrill E. Shoup, president, the Golden Cycle Corp., Colorado Springs, Colo.)

One of the greatest perils confronting this Nation today—hundred megaton bombs, intercontinental ballistic missiles, the cold war and the Berlin crisis notwithstanding—is our "disappearing dollar" and its effect upon 185 million Americans. Undoubtedly it is natural to become more thoroughly exercised over the prospects of mass incineration in a nuclear war than over the threat of collapse of the national economy via the "funny money" road down which we are traveling during these days of money managers. But we must keep up our defenses against both of these disasters, if we hope to survive as the greatest nation on earth.

KEEP ECONOMY STRONG

Defense of our Nation against armed attack of any kind demands that we be strong economically, that we look to our financial system with an eye to keeping our business and industry and all the rest supporting our Military Establishment just as alert and robust as are our Armed Forces.

It, therefore, behooves us to examine what has been happening to our dollar, why it is literally disappearing in value, and what may be expected as the result of a continuation of present policies, or of certain suggested changes in existing policies.

There lately has been a drive on, supported by a curious combination of New York bankers and liberal congressional groups, among others, to seek repeal of provisions under the Federal Reserve Act which require the Federal Reserve System to maintain a gold reserve equal to 25 percent of the Federal Reserve's notes outstanding, plus 25 percent of the deposit liabilities of the Federal Reserve banks.

This comes at a time when our gold reserves have dwindled to a point at which they are now insufficient to meet even the legitimate foreign claims upon our gold.

Prior to 1934, any citizen of the United States could own gold and at any time convert paper dollars into gold or gold into paper dollars at any bank he chose. This fact was the basis for great confidence in the American dollar, since every American, and every foreigner, knew that American money was backed with gold.

On March 9, 1933, and thereafter, the Federal Government, through Presidential orders, acts of Congress, and other devices, forced all citizens to deliver their gold to the U.S. Treasury and to accept therefor paper money. By May of 1933, not only had orders been issued forbidding the possession of gold coins by our citizens, but provisions had been made for fiat money, the devaluation of the dollar and other forms of currency depreciation. From that time down

to the present our Nation has been on a managed currency basis built upon fiat money which, in simple terms, means that the value of our dollar is secured only by the Government's say-so as to what is legal tender.

HOW I O U'S BECOME MONEY

Managed currency is based upon monetizing the public debt, which briefly can be described as a procedure something like this:

- (a) The Federal Government spends or gives away dollars;
- (b) Then it prints I O U's to itself in the form of bonds or notes;
- (c) It next turns these notes over to the banks who list them as assets; that is, dollar credits to the Government;
- (d) And, finally, the bank then uses these Government I O U's as security for making outside loans—thus creating money out of public debts.

It is easy to see why I have used the expression "funny money", for indeed this is what we are talking about.

Now, the question may be asked, what has been the result of our having managed currency? And the answer has several parts, including these:

1. We now have a dollar worth about 40 cents as compared to the 1939 dollar, and the value of our dollar continues to depreciate at the rate of at least 3 percent per year in its purchasing value.
2. Labor has been robbed by taking away a fixed standard of buying power through increasing inflation.
3. The incentive for people to save has been blunted and the security inherent in life insurance, pensions and fixed return investments undermined.
4. We are losing out in our world trade position by being undersold in our own markets, because we cannot produce as cheaply or as efficiently as foreign nations such as West Germany, Japan, Belgium, Canada, and others.
5. We have been saddled with an all-time peak in taxation which continues to grow. Today, taxes take at least 35 percent of our national income.
6. Many of the States in our Union have been brought into deep financial difficulties.
7. Our real money—gold—is taking leave of the United States. Foreign nations are building up their gold reserves at our expense.

History shows us the folly of our ways. Nation after nation—at least 20 major ones in the period since 1790—have tried the managed currency route and have brought to themselves only inflation and financial disaster.

INTERNATIONAL DILEMMA

Must we continue to go down the same road, and can we afford to make the situation even worse by wiping out convertibility entirely through elimination of the 25 percent gold backing of our Federal Reserve notes? I think the answer is quite obvious.

Internationally, we have created for ourselves a very real dilemma. Now we have a dollar of two standards: On the one hand the American citizen does not have the right to demand gold for his paper dollars; while, on the other hand, any foreigner can demand gold for his paper dollars and settlement of other obligations. Thus we have an outrageous situation in which the foreigner receives a protection and a privilege which does not exist for our own citizens, the latter having been deprived not only of such protection, but also his constitutional rights.

Those New York City bankers, and others, whom I have mentioned as being the protagonists in the scheme for eliminating the 25 percent gold backing of Federal Reserve notes and thereby abolishing entirely convertibility of the U.S. dollar, should be advocating, for the good of the country's economy, plans to build back the gold reserves behind our paper money to a full 100 percent. Accomplishment of this goal would halt further inflation and bring our dollar back to a point at which it would once again be worth a full 100 cents.

Perhaps I am old-fashioned, but I still believe what I was taught to the effect that a banker is a trustee for his depositors and customers and certainly has a moral obligation, if not a legal one, to do everything in his power to preserve the integrity and purchasing power of the dollar. We seem to be lacking in leadership along these lines among the eminent financiers of today. When one compares the theories advanced by such leading figures as H. C. Alexander, chairman of the board of the Morgan Guaranty Trust Co., New York City; Per Jacobson, Managing Director of the International Monetary Fund, and others,

with the great financial leadership of the elder J. P. Morgan, head of the House of Morgan, and an outstanding patriot whose first concern always was the maintenance of the status of the American dollar throughout the world, when one makes such comparison, the latter-day financiers simply are not even in the running. Indeed, how much the Nation needs a man like J. P. Morgan today to straighten out the mess into which we have drifted.

DOLLAR IS AT LOW EBB

There are thoughtful people around the country who are as much exercised as I about the state of the U.S. fiscal policy and the low ebb to which the dollar has dropped. Let me quote to you a statement published by the Mining Record, whose editor is a knowledgeable and respected author:

"Sometimes we are appalled at the lack of knowledge of monetary history of even some of our great financial leaders. If we removed all of the gold backing from our Federal Reserve notes, regardless of how theoretical it now is, those Federal Reserve notes would then have no security behind them except the faith and credit of the United States, which is at a new low. These Federal Reserve notes would then be in the same class as the paper money issued by the Continental Congress and which was not backed by any gold or silver reserve. That currency soon became worthless, as we mentioned in a previous editorial. Remember the phrase, 'Not worth a Continental.'

"History teaches that any nation which has resorted to paper money not backed by gold or silver reserve, or convertible into gold or silver, cannot long escape inflation. That is happening to us right now. How often must we learn this lesson?

"We need a gold reserve for the same reason that we need a bill of rights in our State and Federal Constitutions. If these theorists who preach that we need nothing behind our money except the faith and credit of the United States are right, then we should by the same argument do away with the Bill of Rights and rely solely upon the promises of our public officials and legislators to guarantee our fundamental personal and property rights. Since legislative bodies repeatedly pass laws which violate these fundamental rights despite these bills of right, a fact proven by the number of cases each year declaring such laws unconstitutional, how can we expect Congress in the absence of some check, such as the gold standard, to protect the credit and solvency of this Nation and the integrity of its money? The present gold crisis best proves that Congress itself must be subject to restraints. As a matter of fact, our Federal Constitution nowhere gives Congress the power to print money. It specifically authorizes Congress to 'coin money and regulate the value thereof.' And we repeat what we said in a former editorial, those who drafted the Federal Constitution and who used the word 'coin' instead of 'print' had already experienced the worthlessness of the Continental currency.

"A gold reserve for our paper money is as necessary to the value of our money and to the financial stability of our Nation as the bills of right in our Federal and State constitutions are to the safety of our lives, our property, and our freedom.

"Again, a gold reserve puts a limit upon the amount of printing press money that can be issued. Our laws now require a 25-percent gold reserve. That means that before the Federal Reserve Bank can issue a \$5 bill, it must have \$1.25 in gold as a reserve for that \$5 bill. The amount of money that the Federal Reserve Bank can issue is limited by the amount of gold it has. It can only issue four times as much Federal Reserve notes as it has gold. Take away that limitation, take away that gold reserve, and there is no brake, no restraint upon the right of the Federal Reserve Bank to issue paper money except commonsense and good judgment. And as history has proved, it is a fatal mistake for any government to rest fundamental rights solely upon that basis. That's why we have a Bill of Rights in our Federal and State Constitutions.

"Frankly, we see no solution to the dilemma that we are now in with our hundreds of billions, even a trillion dollars or more, of public and private debt. Must it end in a wild inflation, wherein the value of all bonds, all promissory notes, life insurance policies, pensions, social security reserves, and the like, will be wiped out?

"This country is like a man who mortgages his house and whoops it up with the mortgage money. There comes a time when the mortgage must be paid. That time may be approaching for the United States. No restraints are practiced either by Government or economic groups. All want more. Each one is trying

to outdo the other. We have floors under many basic commodities. We have minimum hours and minimum wages. The only commodity of any consequence which has a limitation or ceiling on its price is gold. Gold is the only stabilizing influence, and yet there are those in this country who would throw away this stabilizer."

Not only are we damaging ourselves, but we are helping our enemies with our prodigal monetary policies. One of the greatest weapons in Russia's arsenal for carrying on the cold war is the mounting pile of gold bricks stacked in the vaults of Moscow's state bank. While the United States has been allowing her gold reserves to slip through her fingers, Russia has been building hers, and there remains little question that the Soviet Government is dedicated to the accumulation and hoarding of a large stock of gold for the sake of the economic and political power possession of such reserves provides. It is a distinct possibility that, when our U.S. gold reserve is gone and the run on our American dollar continues, other nations will take note of this run, realize that the American dollar is in bad shape, start liquidating their American holdings and demand gold from the United States. This could become a stampede, result of which would be that much of the remaining gold in our stockpile would end up in Russia and, when our gold reserve is exhausted, our dollar would be worthless.

RUSSIA STOCKPILING GOLD

This may seem to be an exaggeration, but let me tell you that it is not. I was a delegate to the International Sugar Conference at Geneva, Switzerland, in the fall of 1958. For 30 days I sat next to the No. 1 Russian delegate. Three or four days after the conference began, this Russian official discovered that I was interested in gold and said to me substantially this:

"Your country is so stupid (he may not have used exactly those words, but his meaning would have been unmistakable even for a 3-year-old child). You are treating your gold as a cancer or a plague which has to be removed before the patient can be cured of whatever it is you are attempting to cure. Russia is accumulating gold. One day we will back our trade ruble 100 percent with gold and make it completely convertible. Then your Nation, so far as world trade is concerned, will become secondary, and you will be of no further bother to us."

Plain talk. The Russians have a habit of telling all the world what they intend to do in such seemingly fantastic terms that no one pays much attention to them. But, ultimately, they seem to do exactly what they have forewarned. I think perhaps they enjoy chuckling to themselves about how they can delude us in this manner by telling us the truth in such terms that we disbelieve, to our own later discomfort.

Elimination of the 25-percent gold reserve, which is the last vestige of protection for the American dollar, would place in the money managers' hands decisions as to what financial policies should be adopted for the welfare of more than 185 million Americans. Mr. Alexander, whom I mentioned earlier, insists that sound money can be achieved only by sound, honest, wise, fiscal, and economic management, but men being men and human, what assurance is there that a man or group of men exist in the United States or in all the world who, in his or their judgment, know what is best for the American citizen? What this Nation needs is sound money and not money managers. Paper money managers are, after all, mere men, not supermen, and because our record of the last 30 years has been a failure, spokesmen and sponsors of continued paper money management are on the defense. America's own rainmakers and paper money managers are now far from receiving worship by their fellow man. Theoretically, paper money management, like socialism or communism, holds out the always unfulfilled promise of Utopia. There may be one man in these United States with capabilities to manage our money, our pocketbooks, and our lives wisely, prudently, and successfully. If such man does live, he has to date failed to offer his services to our political administration in Washington. The paper money managers, who have enjoyed with the spenders in our Washington administration a blank check arrangement on John Doe Public's bank account, have accomplished some rather questionable results. Under irredeemable paper currency, John Doe Public is helpless to put an end to government financial rampages; but, under a gold coin standard and redeemable paper money, he could demand gold for his paper money at any time he felt his government was handling its finances unwisely. This enabled John Doe Public to put a brake on the spenders.

PUBLIC CAN'T HALT SPENDING

During World War II we spent \$350 billion and suffered 1 million casualties, all to save the rest of the world. Since World War II we have spent or committed ourselves to spend additional billions of dollars to save the world and have suffered many additional thousands of casualties in police action, so-called. John Doe Public might well question where we are heading with these outlays of money and lives; and he might also look askance at some of our other actions, such as our coziness with Russia, the sellout of Nationalist China, the Korean affair, and the continued spending policies originated by men tried and found wanting. But Mr. Public cannot call a halt to our spending because he has been stripped of his right to demand gold for his paper money. Since 1940, he might have at times been worried by the increase in paper money in circulation and by the increase in bank deposits, but could do nothing about it. Maybe John Doe Public is the loser under any money standard and maybe he will lose under the gold standard, but one thing is certain, proven by past history, recent history, and events reported daily in our newspapers: his losses under the gold standard have been negligible compared to his losses under irredeemable paper money management. Mr. Public enjoyed peace, prosperity, progress, and individual dignity from 1814 to 1914, when the then world leader, England, adhered to a gold standard.

DOUBLE STANDARD IS EVIL

Speaking further of paper money managers, it is interesting to note that they apparently do not trust each other or subscribe to a super, super money manager who would control the paper money issue for the entire world. Paper money managers in the world today settle balances between themselves in gold. Out of one side of the paper money manager's mouth comes all the glittering promises of security, benefits, high standard of living, as sales talk to American citizens. And it has been a good sales talk; it had to be, to talk Americans into giving up their gold in exchange for paper. From the other side of the paper money manager's mouth comes the idea that trade balances must be settled in gold—paper money is not acceptable. There is something evil about any double currency standard, when that standard makes available American citizens' gold to foreigners and denies that same redeemable dollar and hard money to the citizens of this country.

The only alternative to chaotic conditions (wars, currency deterioration, dictators, and all the rest) is peaceful trade between individuals, communities, States, and nations. There can be no real trade under irredeemable paper currency in which John Doe Public has no confidence. The hope of a safe future, not only in the United States but the entire world, lies in a prompt return to the gold standard and not its complete elimination.

In summary, let me emphasize these points:

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 in sufficient 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.

GOLD STANDARD IS NEEDED

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.

ELIMINATE FIAT MONEY

11. 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 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.

CONGRESSIONAL ACTION NEEDED

The Government recently stopped U.S. Treasury sales of silver in commercial markets at a pegged price of about 91 cents, which is less than the cost of production. This action would seem to indicate a realization of the folly of a silver policy which has resulted in a steady drain on our Nation's silver reserves while depressing the entire silver mining industry. It is a step in the right direction.

Now, if the Congress will take similar action in regard to gold, moving toward a free market in which the price of gold can rise to levels at which resumption of production will be economically feasible, and the drain on our reserves stopped, then the trends toward more inflation and complete devaluation of our currency may at least be reversed.

The tragedy of our disappearing dollar and its terrible effects on every man, woman, and child in this country, our total economy and our future as a Nation, cannot be overemphasized, nor can the urgent need for corrective action. May God give us the wisdom and foresight to do what must be done before it is too late.

Senator GRUENING. Thank you very much, Representative Chenoweth. I find myself in full accord with your views and certainly welcome your support. I fully agree that it is past time that we do something, and I am hopeful in some form we can bring out legislation which will help the gold mining industry. It is sorely needed, it is long overdue. It is the one outstanding flagrant example of governmentally imposed discrimination in our supposedly free enterprise system against one particular industry and a very important one. Thank you very much.

Mr. CHENOWETH. Thank you, Mr. Chairman.

Senator GRUENING. Senator Jordan?

Senator JORDAN. Mr. Chairman, I want to congratulate Representative Chenoweth on a very excellent statement. He has worked long and diligently in behalf of this problem, and I do hope that we did bring forth something that will bear fruit.

I am a little concerned, and I am sure you are, Congressman, with some of the statements we hear that there is no need now for having any gold to back up our currency. Would you care to comment on that?

Mr. CHENOWETH. Yes. I think if you will read Mr. Shoup's article, Senator, he comments on that. A bill was introduced in the House to repeal the provision for the 25-percent gold backing for Federal Reserve notes. That bill was introduced, I believe, a couple of years ago, and the chairman of the Banking and Currency Committee in the House set hearings. Well, those who were opposed to that proposal began to make their attitude known and requests came in in such numbers in opposition to that proposal that the hearings were canceled, and the hearings have not yet been held, and I don't think they are going to be held, because I think everyone is now convinced that that would certainly be a very unwise procedure. Unless we just want paper money, fiat money, we have to have gold. Gold has been the standard exchange over the years. I don't know of anything that is going to take the place of gold. We know what has happened to the dollar in other countries. We are dealing now, I think, with about a 40-cent dollar in this country. We don't want to see that go any lower. We believe in sound money. We in the West particularly believe in sound money. We don't want just printing press money. We want to back that with gold. I think those nations who have survived have followed the gold standard. They have backed their currency with gold. We want to continue to do that here. I am concerned over that continued drop in the gold reserve, because that is getting down—it won't be long until that reaches a point where we will have a 25-cent requirement for our gold reserve notes here, to say nothing about meeting our responsibilities and obligations, paying those that we have promised to pay in gold. I feel very strongly about this, Senator. I think we should have sound money. Mr. Shoup in his address goes into that more in detail and I am sure all of us fully agree with his comments and observations on it.

Senator JORDAN. Thank you. I share your views, Congressman. I am pleased to have the explanation for the record.

Mr. CHENOWETH. Thank you, Senator.

Senator GRUENING. Senator Dominick?

Senator DOMINICK. I just want to welcome my colleague to this hearing. I know how hard and diligently he has worked trying to do something for the gold industry.

I have here, Mr. Chairman, not the most recent but a survey put out by the Department of the Interior under date of November 14, 1962. I am sure there are many since then. But this shows that the gold output for January to September 1962 nationwide was 10 percent less than in September of 1961, January-September, the comparable period.

It shows Alaska output down to 42 percent during that 9-month period; Arizona, 8 percent; California, 28; Colorado, 22 percent; all down all the way through.

It seems to me it would be helpful during the course of the hearings if we could show clearly what the production has been through 1962 and for as many months of 1963 as we can get. In that connection, some time ago I wrote to the Secretary of the Treasury Department when I was in the House asking that he give to me a list of contracts between the Treasury Department and industry users of gold, specifically reporting those who might be going to use the gold outside of this country or who were foreigners who were using that for export as opposed to industrial use within the country. I got a reply saying that no such figures were available, that although they were selling large quantities of gold for industry, arts and the professions, they really didn't have any list as to whom they were selling that or what type of organization would be using this gold.

It seems to me that perhaps the bill that I introduced might pinpoint these things, if in fact that information was accurate that I got.

There is no doubt whatsoever, as is shown in the exhibit K-2 on page 85, of the hearings which you held last year, that the Treasury Department as such is selling an enormous amount of gold to the industry, the arts, and the professions as they have in here, and every ounce of gold that they sell this way is a further drain on our gold supplies.

This is one of the factors which is never seemingly mentioned in the process of determining about our loss of gold. But here is one spot where it is crystal clear that every ounce of gold that is distributed by the U.S. Treasury for commercial, artistic, and industrial purposes is simply another drain on our gold for monetary resources with which we are having some trouble right now. So again I think that this hearing can pinpoint this problem and do something about that if we can only get a solid drive behind a bill which is going to be stimulation to production and a prevention of a further drain on our monetary supply.

Senator GRUENING. I find myself in accord with that. Of course, actually the industrial users of gold are in a sense being subsidized by the gold mining industry which is not able under the restrictions imposed upon it to secure a fair market value for its product.

This is another form of discrimination.

Senator DOMINICK. That is 100 percent true, Mr. Chairman.

Mr. CHENOWETH. I wanted to mention, Mr. Chairman, I don't know if I emphasized strong enough the fact that we are going to use more and more gold in this space effort, and gold is going to become a very

vital factor, I think, in whether or not we put a man on the moon ahead of the Russians and achieve supremacy in the space race, because I think it is very obvious that more and more gold is going to be required, because apparently gold is the only mineral which can be used for I think the suits which the astronauts wear and in the plating of the capsules. I don't know all the details of that but I think we are using more and more gold in that field, and I think it is obvious we are just in the infancy of the space age, and we are going to continue to use more and more gold. I think that is another good reason, Mr. Chairman, why we ought to be even more diligent, more insistent that this legislation pass and we increase production of gold. We are going to use more gold. Wouldn't it be natural to assume we ought to produce more gold? It seems to me it is just as simple as that to me.

Senator GRUENING. If we don't produce more gold we will be compelled to buy it abroad, and that will be another drain on the dollar.

Mr. CHENOWETH. I think we ought to produce our own gold as much as we can right here, Mr. Chairman.

I believe in domestic industry.

Senator GRUENING. I agree. Thank you very much.

Mr. CHENOWETH. Thank you very much, Mr. Chairman.

Mr. MOSS. Mr. Chairman, I am Lloyd H. Moss, of Arizona. You have heard from California and Colorado. I think you should hear from Arizona now. I have heard these three speakers that are coming up before and I know exactly what they are going to say.

I am now 3,000 miles from home and I would like very much to be heard at this time, if possible, so I can check out and take off.

Senator GRUENING. Mr. Moss, we are very happy to accommodate you under the circumstances. Will you come forward and present your testimony?

You were scheduled to speak later but we will be glad to put you ahead of the regular order since you are a distance from home. Please sit down and proceed.

STATEMENT OF LLOYD H. MOSS, OF ARIZONA

Mr. MOSS. Mr. Chairman, I believe I am the only gold miner in the House here today, a practical gold miner. I am a mining engineer also.

Senator GRUENING. Mr. Moss, would you identify yourself a little more?

Mr. MOSS. My name is Lloyd H. Moss. I reside at Oatman, Ariz., where a picture of Gold City has just been taken, "How the West Was Won," which you probably have seen. It is a gold camp that formerly had an approximate population of 20,000 in 1920, with a possible \$100 million production of gold at the old price of \$20.67 per ounce. Today, the population of Oatman consists of approximately 50 pensioners and 250 working people. They have now established a thousand-ton mill.

Incidentally, my great uncle discovered this mining camp 100 years ago, Camp John Moss. He was stationed in Hardyville, the town of Oatman. He also traded with Senator Barry Goldwater's grandfather at that particular time.

In behalf of the Silver Creek Holding Co., and the Silver Creek Grubstake Corp., of which I am president, located in the San Francisco Mining District, Mohave County, Ariz., I represent these companies. They hold extensive gold and silver mining properties in this area. I also represent the Arizona Small Mine Owners Association, of which I am an active member of the Mohave Council, and appeared in their behalf at Sacramento in 1961—November 28, 1961. I am also very active in the Mohave County Chamber of Commerce; the Oatman Chamber of Commerce, and the Davis Dam-Bullhead City Chamber of Commerce, as well as being a member of the Colorado Mining Association.

I have attended the University of Nevada, where I majored in mining and agriculture. I have been actively associated with mining and agriculture for a period in excess of 30 years.

I would like to present my views before the members of the Subcommittee on Mines and Mining, to add a strong and urgent endorsement of not only S. 1273, but the new bill H.R. 6908, in behalf of myself and those I represent, especially those in Mohave County, Ariz., which has been designated a depressed area, because of our shutdown mines. I am especially concerned with gold and silver mining; also the production of gold and silver as a byproduct from other mineral-producing mines now shut down, constituting an indirect subsidy for these mines.

I would like to speak further on the subject of subsidies.

The miners of the West are not too happy about subsidizing at a set price of \$35 per ounce, procured directly from the Treasury of the United States by the gold and silver artisans, questionable black-marketers, of the New England States, to the tune of \$2 billion in gold, and \$2 billion in silver since 1942. This is an average of approximately \$100 million per year for gold, and \$100 million per year for silver, a direct drain on the U.S. Treasury. Present gold production in the United States is approximately \$50 million per year, and silver production in the United States is only approximately \$30 million per year.

The bankers, for instance, have been subsidized on the basis that they are permitted to issue 4 paper dollars for every gold dollar in the Treasury, working on a 25-percent ratio. Now, gentlemen, it seems to me that the miner should be receiving these 4 paper dollars—ratio—for his produced \$1 of gold, and that the whole system regarding who should be benefited, has been a miscarriage of justice.

You are gathered here today to right a wrong, a monopoly—a Government monopoly—that benefits least of all the producer and the laborer. When the Government sets a maximum price, it upsets the free enterprise system of supply and demand that our country's survival depends upon. A minimum price protects the supply through the producer and labor. Now, as for demand, a free price must exist, otherwise our free enterprise system breaks down with less tax revenue.

Today we have that comparison. A year ago, silver was governed by a Government monopoly, and a Government silver transaction tax—50-percent Federal sales tax. Today, we have a free silver market. Result is the price of silver has jumped approximately 40 percent to \$1.28. Needless to say, when the prohibitive transaction tax is

removed, production—supply—of the silver will be mined to meet the demand, from the hundreds of depressed mining areas of our Western States.

In 1934, wheat was sold for \$0.60 a bushel. At the present time, 1962, with its subsidizing, wheat is sold for approximately \$2 per bushel. Gold in 1934 was sold for \$35 per ounce; and gold in 1962 is still sold for only \$35 per ounce, by a Government-controlled monopoly.

A question has been raised by the U.S. Treasury, stating that a subsidy for gold would not encourage an increase in the production of gold. Prior to 1934, gold production in California alone, was approximately \$5 million per year; by 1942, it had increased to approximately \$50 million per year production, with an increase of from \$20.67 to \$35 per ounce. This production was, of course, terminated by a Government order, L-208, to stop gold production. This ironical action was to set Russia up in the gold, silver, platinum mining industry, with our abandoned mining and milling equipment.

In world production today, Russia, the U.S.S.R., ranks second in gold production, with approximately \$500 million per year. As of now, the United States ranks fifth in gold production, with approximately \$50 million per year. The result from this is no new mining, therefore no new revenue, either from the county, State or Federal Government benefit. Also, by taking out of circulation what could be active mining areas, and converting these areas to wildlife regions, is not contributing to the economy of the Nation or providing needed employment.

We have been warned by our President that we have come up \$30 billion short yearly on our general national production. He has also stated that our unemployment situation has not changed for the better, and that we must be prepared to face another economic reversal. We assume, gentlemen, that you are aware that a mining dollar turns over 100 times more in commercial channels than any other commercial dollar in industry.

These bills, S. 1273, and the new bill H.R. 6908, which you gentlemen are here to discuss, provides for a maximum price of \$125 per troy ounce for gold. Being that gold and silver are both noncompetitive, it will add to the wealth of our Nation, by putting directly or indirectly to work, approximately a million people. It will also bring back foreign capital to finance our mines, as was done prior to World Wars I and II.

I might insert here, prior to World War I, foreign capital in better than 70 percent of our mines, and prior to World War II, better than 50 percent of our mines. This is a point that seems to have been overlooked or depreciated by the President's economic advisers. Eastern manufacturers, who face the need of full retraining programs, would be producing heavy machinery, equipment and steel products. Much of the lack of revenue for the railroads is due to the lack of freight to and from thousands of closed mines in the West. This, along with the actual mine production, would more than make up the \$30 billion shortage of which the President is so concerned.

In regard to education: engineering, especially mining, and its associated subjects, such as geology, etc., and may I insert here, they are stealing all our engineers now for your moon program because there

is the need for the most versatile engineers for said program. Mining is the No. 1 priority in the U.S.S.R. In the United States, at the present time, many universities and colleges have deleted or reduced their courses in the mining schools for the lack of opportunity, because of the lack of mining in the United States.

Gentlemen, in closing, you were sent here to police any and all forms of monopoly—Government, labor, or business—under our Constitution. Under the Constitution, Congress has the sole right to coin and to regulate our monetary system, so get with it. Otherwise, the 13 Western States have only one recourse, that is, to secede from the Union, then apply for foreign aid, to get our mines in operation again. No payments, no interest, no taxes, because it's much later than you think.

Senator GRUENING. Thank you very much, Mr. Moss, for a very, very, good statement. Senator Jordan, any questions?

Senator JORDAN. No questions, Mr. Chairman.

Senator GRUENING. Senator Dominick?

Senator DOMINICK. No questions.

Senator GRUENING. Thank you very much, Mr. Moss. We appreciate your coming here.

We now have two representatives from the Treasury Department, the Honorable G. d'Andelot Belin, General Counsel, Department of the Treasury; accompanied by Dr. Leland Howard, Director, Office of Domestic Gold and Silver Operations.

Gentlemen, we will be very glad to hear from you.

**STATEMENT OF HON. G. D'ANDELOT BELIN, GENERAL COUNSEL,
DEPARTMENT OF THE TREASURY; ACCOMPANIED BY DR.
LELAND HOWARD, DIRECTOR, OFFICE OF DOMESTIC GOLD AND
SILVER OPERATIONS**

Mr. BELIN. Mr. Chairman and members of the subcommittee, I would like to comment before I come to my prepared statement on the question raised by Senator Dominick about the Treasury reports on these two bills, which I wrote to him early in March, or sometime in March, were under consideration at the Bureau of the Budget.

The reason we did not submit those was that I didn't receive clearance on either of them until last Friday, the latest one at 5:18 p.m. I have them here now, but once we were called upon to testify at your hearings, we made no particular effort to expedite Budget clearance, since our statement here would be fuller.

But we were not trying to play any games about withholding them and did exactly as my earlier letter said. We submitted our reports for clearance in the usual way.

Senator GRUENING. Very good.

Mr. BELIN. I appreciate this opportunity to discuss with you the important subject of gold and its relation to the two bills under discussion; namely, S. 100 and S. 1273.

S. 100 provides that the Secretary of the Interior make a study in depth of the gold mining industry, including a review of the extent to which the United States would be dependent upon foreign sources for gold for nonmonetary purposes in the event that domestic sources ceased to be available for these purposes, and make a report on

December 31, 1964. It would also prohibit the sale of gold by any agency of the Government for artistic, commercial, or industrial uses.

S. 1273 would require that the Secretary of the Interior survey the industry and determine the price, not to exceed \$105 per troy ounce, to be paid to achieve maximum production of gold from the U.S. mines. It would establish, as of January 1, 1964, in the Department of the Interior, a Gold Procurement and Sales Agency, which would be the sole agency purchasing gold from domestic producers and the sole agency selling it for nonmonetary purposes. This Agency would pay the price determined as above, resurveyed annually up to \$105 per ounce for domestic gold, sell to industry at the same price, and sell to the Treasury any unsold gold at the current monetary price. The difference would be absorbed by appropriated funds. The Treasury could otherwise obtain gold only from sources other than domestic producers.

The Treasury is opposed to these bills, and to other similar bills which have been introduced.

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. This pledge was set forth in his message to Congress of February 6, 1961, on the U.S. balance of payments and gold. His reaffirmation of the policy to maintain the \$35 price is central to the best interests of the U.S. economy and the free world as a whole. It contributed directly to the restoration of confidence in the dollar at a time when an unfavorable balance-of-payments position in the United States and large gold losses had put pressure on the dollar. It is of vital importance for the stability of the dollar—and for the free world economic and political system to which this stability contributes—that there be no doubt about our intention to maintain the \$35 price. The bills in question would create such doubt by creating a two-price system for gold in the United States.

In June 1962, the Treasury testified before this committee on Senate Joint Resolution 44, which would have provided incentive payments to producers of domestic gold not exceeding \$35 an ounce, in addition to the \$35 base price paid by the Treasury. Under Secretary Roosa explained in detail why the Treasury Department opposed the enactment of the bill. Since that time the Treasury has had continuing discussions with interested public officials and with representatives of the gold mining industry and after a careful reexamination of the role of gold in our monetary system, the Department has not changed its view concerning a subsidy or a two-price system for gold in the United States. The arguments that we gave against Senate Joint Resolution 44 are, therefore, pertinent to the two bills under discussion here today.

The immediate objective and result of section 4 of S. 100 would be to establish a different and higher price for gold in the domestic market for artistic, commercial, and industrial uses. Presumably the purpose of the other sections of the bill would be to establish some kind of subsidy arrangement for gold along the lines of one or more of the proposals made to Congress in this and recent sessions.

S. 1273 would provide a subsidy for the production of newly mined gold up to \$70 per troy ounce. In addition the bill would provide

that beginning in 1964 the Gold Procurement and Sales Agency should sell the subsidized gold for nonmonetary uses at the new higher price and transfer to the Treasury any gold not thus disposed of. The effect would be to eliminate the Treasury as a source of gold for the domestic market at the \$35 price.

The effect of both bills would be to create a two-price market for gold in the United States, with a very much higher price for newly mined domestic gold alongside of the standard \$35 price at which the United States buys and sells gold in international transactions.

The passage by Congress of a bill such as S. 100 calling for a study of the gold question with the clear objective of a domestic subsidy would in itself be the cause of serious concern in financial circles. As indicated by Under Secretary Roosa's statement before this committee last year, even the congressional consideration of Senate Joint Resolution 44 at that time led to unrest in financial circles abroad and required explanations on his part of the significance of the hearings to several of the leading central banks. The fact that the subsidy would be paid by the U.S. Government would serve to arouse fears of a dollar devaluation. It would seriously interfere with the efforts of this country, in conjunction with a number of Western European countries, to exert a stabilizing influence on the price of gold in the London market. It would encourage private hoarding of gold and thus divert gold from its most useful function—that of serving as a form of official reserve for making international settlements.

But gold is not the only means of settling international accounts. The dollar has become a major form in which countries hold their official reserves and settle their accounts abroad. If the price of gold, in terms of dollars, were expected to be raised even for the U.S. domestic market alone, the role of the dollar as an international reserve and means of payment could well be shaken to the point of causing a severe reaction on international trade.

In short, while gold serves a very important function in the international payments system, the dollar serves an equally important function, and any expectation of a decline in the value of the dollar relative to gold will reduce the usefulness of the dollar without any compensating increase in the usefulness of gold. Not only would the increased U.S. production of gold under the proposed bills be relatively small; a larger part of existing production abroad would go into sterile private hoards if uncertainty about the dollar developed.

Gold production reached its peak in the United States in 1940, when it amounted to \$170 million. In 1962, U.S. refinery production amounted to only \$54.5 million. Free world gold production, on the other hand, has increased from \$738 million after World War II to \$1,215 million in 1961. During the 10-year period 1951-61, free world gold production increased 45 percent. Preliminary figures for 1962 indicate a further increase in free world production and it is predicted that there will continue to be an increase for many years to come. On the basis of 1961 figures, U.S. gold production is only 4½ percent of the free world production.

There have been predictions that a gold subsidy will cause U.S. production to increase enough to offset our decrease in gold stocks. During the past 5 years this decrease has amounted to nearly \$7 billion. It is difficult to predict production of gold at a higher price,

and any estimate of future production in the United States at a higher price must be conjectural. We do know what happened in the United States in 1934, however, when the price of gold was increased 69 percent. This was at a time when labor and supplies were at their cheapest, when ore dumps and tailing piles that had been in existence for years were reworked, and when all factors leading to more production were favorable, yet gold production only slightly more than doubled. When commenting on one of the proposed subsidy bills last year, the Department of the Interior indicated that a 100-percent subsidy would about double today's gold production. Even on the most optimistic assumptions, it is apparent that increased production caused by a subsidy could not have a substantial effect on our gold stocks.

A subsidy, in short, cannot solve or even significantly ameliorate the balance-of-payments and gold-drain problems. It would present, however, a very real danger to our dollar and a threat to our gold supply.

The dollar evolved as a key currency after World War I, and since World War II it has been accepted throughout the world as a supplement to the gold supply in providing the additional liquidity needed to support the growing volume of international transactions. This has been possible for a number of reasons, the main one of which is the fact that we have a policy of buying and selling gold at a fixed price. The dollar is the only currency that maintains this link between money and gold, and the monetary system of the entire free world is hinged on this interconvertibility which we maintain between gold and dollars at a fixed price. It is important that we not do anything to change the policy of buying and selling gold at the fixed price of \$35 an ounce. These bills would destroy the present relationship between gold and dollars by stopping the long-standing policy of sale of gold for legitimate domestic purposes at the fixed monetary price and would be a step in the wrong direction. Passage of either of them would be interpreted both at home and abroad as a change in our present policy. It would tend to destroy confidence in the dollar and thus increase our gold drain.

The Treasury's concern over such likely repercussions is based on the intimate, continuous, and extensive contacts of our officials with their opposite numbers abroad. We do not think it would materially reduce the serious danger to the dollar caused by a second price for gold for such legislation, to be accompanied by statements by either the legislative or executive branch that devaluation of the dollar was not intended.

The Treasury believes there is wide agreement with its own conviction that if there were ever a doubt concerning the firmly fixed relationship and price between gold and the dollar, then immediately a large part of those claims now held in dollars would be promptly turned into gold pending further developments, so that creditors could see whether the price of gold was to be raised and the dollar devalued. This, of course, would have grave consequences for the United States. To be sure, if after a period of time the dollar were not devalued, our foreign creditors might perhaps once again shift back into dollars, but even speculation on these possibilities is enough to indicate the dangers we face.

The Treasury is not unmindful of the human and economic problems caused by the closing of gold mines. We realize that it may seem unconstructive for this Department to recommend against legislative attempts to assist the gold industry when other businesses of various kinds are subsidized in our country and gold mining is subsidized in a number of countries abroad. In our view, however, this is the inevitable result of the unique link between gold and the dollar, which is the world's major reserve currency. The United States can subsidize ordinary commodities, and other countries whose currencies are not tied to gold can subsidize gold mining, without causing the drastic repercussions which we strongly believe would follow from enactment of such legislation as these two bills.

There must not be a second price for gold in the United States, no matter how indirect, alongside the official price. Any price other than the official price could be construed by our creditors—those countries that hold dollar balances—to mean that we had in some way made a judgment that the official price of gold was too low; that in some way, directly or indirectly, we were on the way to revising our official price. Any action in this direction could lead to speculation against our currency. Doubt must not exist. We are the country that maintains the monetary role of gold, and for that reason we cannot treat gold as we would a plain commodity. The position of the Treasury, therefore, is to maintain the fixed price of \$35 an ounce for gold and to continue to oppose any proposals that would lead anyone to believe that we do not think that the \$35 price is the proper price for gold. We strongly oppose both S. 100 and S. 1273 because the purpose and intent of both of these proposed bills is to create a price other than the official price for gold in the United States.

Senator GRUENING. Thank you, Mr. Belin. Of course, this repeats pretty much the line of reasoning that we had presented to us last year by the Under Secretary, Mr. Roosa.

Mr. BELIN. I am fully aware of that, sir.

Senator GRUENING. However, I find it difficult to understand why there is so much alarm, fear, apprehension over a discussion of these matters.

Just as Senator Dominick has recently pointed out, I haven't noticed any adverse consequences, but if mere discussion and rumor can affect our stability seriously, we are in a much worse way than any of us think we are.

I, for one, cannot understand why, if legislation of the kind we are discussing, is accompanied by a specific commitment which could be written into the legislation that there was no purpose, intent, or idea to change the value of the dollar or to increase the price of gold, why that should cause all this alarm.

It seems to me that the Treasury itself is creating this alarm by constantly pointing to the adverse and detrimental effect of discussion or rumor. Would you comment on that? Can't we make a specific commitment by the Congress which could be affirmed by the President, who would sign any legislation that would be sent up to him from here if we approve it, that there is no purpose to change the price of gold?

Mr. BELIN. I think the basic difficulty, Mr. Chairman, is that the adoption of legislation which would in effect provide a second domestic price for gold would represent the congressional judgment that the

official price was too low and was the wrong price for gold, and that, therefore, no matter what the passing or temporary intent of Congress was at that time, that it was already committing itself to a judgment that this was too low and a wrong price.

Senator GRUENING. I think we all feel that the price of gold is too low from the standpoint of those who produce it under the restrictions imposed upon it by the administration—by this administration and the previous administrations.

But that would not necessarily have any bearing on the monetary aspects of gold. We use gold in industry, and increasingly this will be used. Why isn't it possible to distinguish between the relation of gold to the dollar and its industrial use?

Mr. BELIN. Because gold is so much more than just commodity, I think, Senator. If you establish a second domestic price based on what you just indicated was your own judgment that the \$35 price is too low, I think it is fair to believe that other creditors will say the real price is the high domestic price and the other is just an artificial price which may be temporarily maintained for a while or it may not.

Senator GRUENING. Well, it is an artificial price; isn't it?

Mr. BELIN. Oh, yes, it is a statutory artificial price.

Senator GRUENING. Why not face that fact and why not face the fact that in no other field, with no other commodity, are the producers of this commodity obligated arbitrarily to adhere to a price established 29 years ago when the cost of labor, the cost of materials, the cost of every element that goes into the production of gold was very much higher?

Mr. BELIN. I can't argue with that.

Senator GRUENING. I don't see why the Treasury can't face that fact and accommodate itself to this. Now, the Treasury Department is presumably interested also in the economy, the welfare of the economy of our Nation.

Mr. BELIN. Indeed it is.

Senator GRUENING. It is, or should be, concerned with other monetary matters. One of the depressing aspects of the testimony presented by the Department this year and last year is that it has come up with no constructive alternative for this situation.

In any other industry, whether it be agriculture, or whatever, we find ways, we have ingenuity enough—we believe we are a resourceful people—to find some remedy, some solution, some approach to this problem which will mitigate this gross discrimination—this unjust discrimination—leveled against one industry.

Now, we have been hopeful that the Treasury Department, if it did not agree with this legislation, would come up with some other alternative, and, so far, the record has been absolutely blank in that respect.

Mr. BELIN. I can only tell you, Mr. Chairman, that you are right in the statement made here earlier this morning, that the Secretary was sympathetically interested and that this has received a great deal of thoughtful attention from the point of view of how can we block something but what can we do without jeopardizing what we consider to be absolutely essential matters, such as the value of the dollar?

We have been unable to come up with anything helpful.

Senator GRUENING. Don't you think that the world is impressed by the repeated iterations and reiterations of the fact that there is no purpose to change the value of gold in relation to the dollar? Wouldn't that be as impressive as these vague rumors which you feel would start in circulation merely because we are considering this question?

Isn't the word of the Government of the United States, as expressed through the Secretary of the Treasury and the President of the United States of some affirmative value? It seems to me it has.

Mr. BELIN. I am sure it has, sir, of course. These things are very intangible. They represent judgments of our people about the reactions of other people. They could be wrong, but we are very much afraid that they are not, that they are right.

Senator GRUENING. If we followed this policy of apprehension and permitted this strange alarm about gold in every other field of our economy, we would be completely debilitated, panic stricken and unable to function.

I don't see why we have so much fear and timidity in this one field where the issue seems to some of us to be fairly simple, to be able to distinguish between the monetary aspects of gold and the basic fact that it is impossible for our miners to produce this gold at this price. Everybody admits that. We know that within a year or two, there will be no more gold production in the United States except as may be incidental to gold production in connection with other minerals.

Meanwhile, other countries are producing gold, value gold, cherish gold, store gold, and we are being left behind and that doesn't seem to me to be in conformity with the general outlook, the tradition and the purposes of the United States.

We don't like to be left behind in anything. We like to feel that we are at least equal to or superior to others in fields to which we dedicate our efforts. Here it seems to be a striking exception to that rule.

Mr. BELIN. Sir, we are not being left behind in terms of the fact that because we have the world's leading currency, that gives us our unique problem here. If we had a secondary currency, I believe the Treasury's position before you would be entirely different. We would be free to experiment with subsidies and other devices to encourage gold more like a commodity, an ordinary commodity.

We don't feel with the position of the U.S. dollar in the world that we can do that.

Senator JORDAN. Along that line, Mr. Belin, you said in your statement, "the dollar is the only currency that maintains this link between money and gold, and the monetary system of the entire free world is linked on this interconvertibility which we maintain between gold and dollars at a fixed price."

Now, I have a \$20 bill here. Tell me how I can convert that into gold.

Mr. BELIN. You can't, sir.

Senator JORDAN. You say that we maintain the interconvertibility between gold and dollars at a fixed price.

Mr. BELIN. In our international acts, as the Senator knows.

Senator JORDAN. That goes to international acts?

Mr. BELIN. As you know, sir.

Senator JORDAN. If I were a foreign creditor, I could convert into gold?

Mr. BELIN. If you were a foreign government or a foreign central bank, Senator Jordan, not a foreign individual. He can't convert his money.

Senator JORDAN. In other words, we grant privileges to foreign governments and banks that fall in the categories you have named there that are superior to our own?

Mr. BELIN. It is for the purpose of our own currency and trade that we do it. It is not just a charitable handout of some privilege to foreign creditors.

Senator JORDAN. What would be the position of the Treasury if and when, which is entirely likely, we run out of gold?

Mr. BELIN. I don't know whether you mean running down to the level of the current 25 percent gold cover or do you mean we just have no more gold left in the Treasury at all?

Senator JORDAN. Here is what I mean. Suppose, for instance, France with their credits would say, "We want gold for the money represented by these dollars."

What would be our position?

Mr. BELIN. You could only consider that in the particular situation as it arose. France, of course, has very heavy claims on us which could be converted into gold immediately, if she for some obscure reason should try to realize on them all at once in gold, which would be contrary to their previous pattern of how much of her reserves she holds in gold as against other currencies, why we would have to look at the situation at that time.

But there are many drastic remedies that could be invoked if it became a serious, enormous threat of that size in terms of putting on controls.

Senator JORDAN. Like what? What drastic measures?

Mr. BELIN. We can block off all foreign exchange under the Trading With the Enemy Act, but that would have disastrous repercussions on our own trade, of course, and on all sorts of things. And probably it would call for legislation, certainly congressional consideration, if the time came.

But we could do things even without legislation if it came in an emergency situation.

Senator JORDAN. Wouldn't it be a more reasonable approach to take measures to increase our own domestic gold supply?

Mr. BELIN. If this could be done without endangering the dollar and would produce a substantial new supply, sir. We fear that there will be more loss of gold under these bills than there would under our present, very unsatisfactory situation of a gold drain.

Senator JORDAN. Do you think there would be an increased out-migration of gold under these bills?

Mr. BELIN. Yes, sir; I fully believe that the foreign dollars would be converted into gold claims at an accelerated rate if either of these bills should become law.

Senator JORDAN. I find it difficult to follow your reasoning. I yield the floor, Mr. Chairman.

Senator GRUENING. Senator Dominick.

Senator DOMINICK. Thank you, Mr. Chairman.

Mr. Belin, I know, and most of us know, that the Treasury is concerned about the outflow of gold, and we have just had these Joint Economic Committee hearings on it.

At that time, the Secretary of the Treasury blamed the outflow of gold on four specific points. One was foreign aid, one was military aid, one was the imbalance of tourism, and one was the capital outflow from foreign investments. The latter, as he said, almost equal to the other three.

At no point during that entire testimony did he comment on the loss of gold derived by sales of monetary stocks of gold by the Treasury for industrial, artistic, and commercial purposes. Yet this amounts to a substantial amount.

Now, it would seem to me that if we prohibit that, we are simply taking a step which is far less drastic, in an effort to try and improve our gold situation, than we would be if we put on exchange controls or even raised the short-term interest rate as the Federal Reserve is suggesting, or putting an excise tax on capital outflows which has also been suggested.

So I can't see why you say that this is all wrong, because the way the Treasury is going at it right now, it seems to me that we are contributing to the outflow of gold by these sales of monetary stocks of gold for artistic, commercial, and industrial purposes.

Mr. BELIN. May I ask the Senator—

Senator DOMINICK. Will you comment on that?

Mr. BELIN. My comment is that I don't see how your bill, S. 100, would provide for the needs of gold domestically, if it forbids the Government sale, other than by some mechanism which would result in the establishment of the higher second price for gold.

Senator DOMINICK. It would undoubtedly result in a higher price and that is correct, which is the purpose of the bill.

Mr. BELIN. Because of that, sir, it is our belief that these consequences would flow that I tried to outline in my statement, and it could well wind up in a worse gold drain than we have now from the 60-odd million dollars worth of gold that we sell to domestic use, or did last year.

Senator DOMINICK. I don't know what it was last year. The table on K-2 would indicate that it was \$82 million in 1959, and \$76 million in 1960, so it's fairly substantial.

Mr. BELIN. Oh, it's substantial. I am not trying to deny that, sir. According to my table last year, it was the difference between 932 and 990, which is just over \$57 million that went to domestic industry.

Senator DOMINICK. The exhibit that I referred to, K-2 on page 85 of last year's hearing was simply entitled "U.S. Mint Sales to Industry, Arts, and Professions."

Now, are those all domestic sales?

Mr. HOWARD. They are domestic sales, Senator, but there is a net return of scrap, so you would have to net out.

Senator DOMINICK. How does it happen that when I sent specific questions to the Treasury in either 1961 or 1962, that I received a reply saying that they had no idea whom they are selling it to? And that they couldn't give me the information?

Mr. HOWARD. We have the sales from the Mints and Assay Office, yes.

Senator DOMINICK. Where else would you have it?

Mr. HOWARD. Quite a few sales are made from private industry.

Senator DOMINICK. Through licensing through the Treasury?

Mr. HOWARD. Yes; the smelting companies, for example, not only sell domestic gold that they refine but they also sell gold from imported material.

Senator DOMINICK. How much of the U.S. monetary stock of gold is sold for all these purposes overseas?

Mr. HOWARD. There would be a relatively small amount. Most of it would show up in exports of fabricated articles, and a fabricated article does not fall into the licensing system of our export. There is no export license necessary to send out fabricated articles. We would have to put in some kind of an export control in order to devise and get the figures that would cover what is going out.

But I might say, sir, that it does go out in fabricated articles. It would not go out for hoarding because you can buy gold cheaper abroad than you can here most of the time.

Senator DOMINICK. At times?

Mr. HOWARD. Most of the time, recent times. There would be no incentive.

Senator DOMINICK. How do you go about this sale of monetary stocks of gold for these purposes? What occurs, the mechanics of it?

Mr. HOWARD. We have a licensing system under which people are licensed to deal in gold and to fabricate in gold, refine gold, and if for some reason, they cannot get enough gold in the market, they can come to us and buy the gold. They have to show legitimate, customary industrial use for the gold.

Senator DOMINICK. So to the extent that they can't find adequate supplies of gold at \$35 an ounce elsewhere, we are subsidizing the fabricators, right?

Mr. HOWARD. We don't call it subsidizing, sir. Because the history of the United States has always been that we have furnished this, and you must assume that gold would be a higher price if it is being subsidized, and I don't believe you can make that an assumption.

Senator DOMINICK. You said they couldn't get it at \$35 an ounce, they would then come to the Treasury. This would indicate to me that the Treasury is underselling the regular market.

Mr. HOWARD. No. The market price for gold, the world price for gold, is \$35 an ounce.

Senator DOMINICK. No, not on the free world market.

Mr. BELIN. Within a few pennies.

Mr. HOWARD. Our price is not exactly \$35. It is \$35 plus one-quarter of 1 percent which is 35.08 $\frac{3}{4}$.

In other words, when we buy gold, it's one-quarter of 1 percent, 34.91 $\frac{1}{4}$ that we pay, and when we sell to these industrial users, for example, it is 35.08 $\frac{3}{4}$.

Now, London price has been running 35.08.

Senator DOMINICK. Maybe the answer to my basic question is more complicated than I think but I don't see why it is. My question is how much gold do we sell from the U.S. monetary stocks to foreigners or overseas?

Mr. HOWARD. When you speak of selling, are you speaking about through the industrial use? I was thinking you were.

Senator DOMINICK. That is correct.

Mr. HOWARD. That we do not have because most of those sales are in the form of fabricated articles, and we do not keep an export record of the gold in those.

Senator GRUENING. Will you repeat that, please? You do not have it—why? Why do you not have that information?

Mr. HOWARD. Once gold is fabricated, we permit it to be traded in without restrictions on it.

Senator GRUENING. You have no record of these transactions?

Mr. HOWARD. Of the export transactions?

Senator GRUENING. Yes.

Mr. HOWARD. Not on fabricated gold, other than the declarings, I guess that—well, I don't think there is any of that going through customs.

Senator GRUENING. How do you do business without having some record? You must have some record.

Mr. BELIN. This is not the Treasury doing business, Mr. Chairman, as I understand it. This is one step removed.

Mr. HOWARD. Or it may be several steps removed from the Treasury.

Senator GRUENING. Please outline those steps. What are those steps?

Mr. HOWARD. For example, there are in this country companies that do partial fabricating. Let's say, they make ring findings. Then they can turn those over to some other companies that finish the rings, polish, put in settings, if a setting goes in or what else there is, or stamp them.

Then that is the company that makes the sale of the fabricated article.

Senator GRUENING. I would think, in view of the great importance of gold and its great sensitivity, which even our discussion seems to raise, that you would have this information and you would check it very carefully, and be in a position to report to the Congress on just how, where, and why it goes to these places.

That would be very useful. That would be one of the subjects that might be elucidated if we had this study which Senator Dominick's bill provides. I think there is a great hiatus there in our knowledge and I think we should have it.

Senator DOMINICK. It certainly seems so to me.

Mr. HOWARD. We do license what we call semiprocessed gold. That is not gold which has been fabricated. It hasn't reached our definition of fabricated gold.

Senator DOMINICK. What is that gold used for?

Mr. HOWARD. That would be gold like dental gold where the gold content is high. Our dental companies here manufacture the various alloys that dentists use, and they are shipped out of the country, and we do license those because the gold content of those is rather high.

Senator DOMINICK. Now, S. 100 at least would not require any direct subsidy, would it?

Mr. BELIN. No, sir.

Senator DOMINICK. But it might easily increase the production of gold, might it not?

Mr. BELIN. Well, S. 100, as I understand it, and I think you agree, Senator, would very likely result in a higher price for domestic use of gold and to that extent, I should think would increase gold production.

Senator DOMINICK. The thing that I am concerned about is that every member of this committee is as anxious as you are to keep a sound dollar. We have been working at it and trying to do something about it.

And the Treasury has indicated through Secretary Dillon in these recent hearings that if we continue to have an outflow of gold of the type that we have had for another 2 years, we may have to take some pretty drastic steps, either by devaluation or something of this kind, or exchange controls. I can't understand for that reason why the Treasury says here we have an effort to try and increase domestic production of gold, which could be used for monetary purposes as to a portion of it, at least, and yet we are not going to go along with it because of the two-price system.

I just don't understand this anywhere through.

Mr. BELIN. We just think the danger is greater that it would produce a number of creditors trying to convert and converting their dollars into gold, and would result in a worse gold drain than we are already having.

Senator DOMINICK. Thank you, Mr. Chairman.

Senator GRUENING. Thank you very much. We appreciate your testimony.

The next witness is Dr. Jack N. Behrman, Assistant Secretary for Domestic and International Business, Department of Commerce.

STATEMENT OF DR. JACK N. BEHRMAN, ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS, DEPARTMENT OF COMMERCE

Dr. BEHRMAN. Thank you, Mr. Chairman. I have a short statement which I would like to read for you.

Senator GRUENING. If you would.

Dr. BEHRMAN. It is a pleasure to have an opportunity to speak with this committee. The Department of Commerce shares the concern of the sponsors of S. 100 and S. 1273 with respect to the depressed condition of this country's gold-mining industry. I understand that the invitation of the committee was extended to me so that the Commerce Department would have an opportunity to state its position on the need to introduce legislation to alleviate the depressed condition of the gold-mining industry.

From 1940, the peak year of U.S. domestic gold production, to the present time, the prices of the goods and services which comprise our gross national product have increased about one and a half times, while the price of gold has remained fixed at \$35 per troy ounce.

The 1940 peak represented the completion of a remarkable doubling of the rate of gold output from 1933 to 1940, following an increase in the official price of gold and a decrease in the prices entering into calculation of our gross national product. The combined increase in the real price of gold from these two effects was 1.2 times. Thus,

the 1962 real price of gold was 92 percent of the 1929 real price, and 1962 production in ounces was 76 percent of 1929 production.

There are two general lines of attack upon the gold-mining problem that the Department of Commerce would recommend: First, the assistance of going mining activities within existing institutions of Government and international monetary relations; and second, assistance of unemployed persons and of consequently depressed communities. The first class of assistance consists of research and development aid and special loans, both of which are provided by the Department of Commerce to enterprises in distressed areas through the Area Redevelopment Administration. The Bureau of Mines and the Small Business Administration, of course, have the predominant programs in the fields of mining research and development and lending, respectively. My recommendation is that there be increased research and development expenditures so as to raise gold production by lowering costs. Efforts to increase lending can only be fruitful after successful completion of research and development because the structure of gold mining limits the number of loans which could be made. That is, in lode gold production in 1958, one mine comprised 75 percent of production and in placer gold, three mines comprised 97 percent. Byproduct gold production is more difficult to identify with size of producer, but the largest byproduct producer accounts for about two-thirds of byproduct gold. Assistance to depressed gold-mining areas and retraining of displaced labor is a part of the ARA program, just as it is in depressed lead and zinc mining areas.

As this committee is well aware, gold, unlike the products of other industries, is a monetary commodity. Moreover, the U.S. dollar is in the position of being the world's leading currency. While other countries have been able to introduce gold subsidies with minor effects upon the international monetary system, a similar move by the United States would be a very risky thing, for it would create doubts about whether this Government intended to hold the monetary value of gold at \$35 an ounce. Such doubts could conceivably set off a speculative run on our gold reserves and thereby damage seriously this country's international liquidity position. This means that such an effort to assist the gold mining industry might, by disrupting the international monetary system, have a detrimental effect on the entire U.S. economy.

The primary responsibility for the monetary aspect of gold, of course, is in the Treasury Department, rather than this Department. On the other hand, the Department of Commerce has a primary responsibility to promote expansion of exports. Any measure which threatens the value of the dollar, or stimulates other nations to take defensive postures against such a prospect, will have deleterious effects upon U.S. exports. It is for this reason that Commerce raises the issue of effects on the value of the dollar.

S. 100 does not specify how the gold would be distributed from the mines to the gold-consuming industries, nor the extent to which restrictions would be imposed on gold imports for commercial uses. S. 1273 appears to be in conflict with article IV, section 2, of the Articles of Agreement of the International Monetary Fund, whereby member governments may not purchase gold at a price above parity plus 1 percent.

Both S. 100 and S. 1273 would involve the establishment of a two-price system for gold. Higher domestic prices for newly produced gold would, of course, also affect the prices of many individual industrial and consumer commodities, including such diverse items as dental fillings, missile components, and wedding rings. The greater the differential between the domestic and foreign price of gold, the more formidable the problem of control, for the natural effect of higher prices at home is, of course, to encourage increased purchases abroad. Under S. 1273, for example, the potential gain from a U.S. tourist purchase abroad of a gold ring, which reflected a gold price of \$35 an ounce, when compared with comparable prices at home which reflected gold at \$105 an ounce, would surely provide a strong foreign sales inducement. Thus, under a two-price system, domestic gold-working industries would be forced to bear not only the direct impact on sales and output or a drop in demand resulting from higher internal gold prices, but also the inroads of displaced sales to foreign competition. Ironically, such imports could be based upon gold material supplied at \$35 an ounce, the external price supported by U.S. sales to foreign central banks.

In my judgment, the effect of the proposed legislation upon gold-consuming manufacturing industries would be to generate more unemployment than there would be improved employment in gold mining; that is, I believe there would be a net loss of employment. It is impossible to be definitive about this point, however, because of the large amount of gold produced as a byproduct in other metal mines and because of the absence of reliable data on gold consumption by manufacturing industries.

Moreover, even if we succeeded in doubling or even tripling U.S. gold production, the increment in gold supply would still be small by the most important comparisons: magnitude of the Treasury gold stock, or amounts involved in our annual Treasury gold losses—about \$7 billion in the past 5 years.

In summary, the principal difficulty we face in seeking to alleviate the depressed condition of the gold mining industry by an increase in the price paid by the Government for domestically mined gold is that presented by the requirement that we avoid creating possible doubts about our intention to maintain the current gold parity of the dollar. This requirement would also tend to rule out measures which have the effect of creating two prices for gold because introduction of a higher internal price for gold would probably be construed as an indication that the United States did not consider the price of \$35 per ounce to be adequate.

In view of these considerations, I should like to suggest that the committee support this Department's recommendations of increased research and development bearing upon gold exploration and an expanded program for the Area Redevelopment Administration which provides many forms of assistance available to the gold mining industry.

Thank you, Mr. Chairman.

Senator GRUENING. I want to thank you very much, Mr. Behrman. I notice that in all this testimony, no matter what department it comes from, you all fall into the same Treasury Department mystique about the strange, eerie effects that somehow will take place if and when

we do anything about gold, and so far, I found no member of this subcommittee, either this Congress or the last, that was able to follow that.

I have never seen such an exhibition of apprehension. You know it occurs to me that out in the State of Colorado, which is so ably represented at this hearing by Representative Chenoweth, and by Senator Dominick, we have a tree, known as the aspen, sometimes as the quaking aspen. Its leaves tremble where there is no visible wind. They just seem to tremble all by themselves without any visible cause.

It seems to me the position of the Government departments is closely analogous to that of the quaking aspen. You quake when nothing is in sight to cause this quaking.

Dr. BEHRMAN. Mr. Chairman, let me see if I can get the explanations which others seem not to have gotten across, in a little bit different way.

Senator GRUENING. You suggest that somehow you could assist the unemployed persons and consequently depressed communities? What would happen if you decided in pursuing this purpose, to pay every gold miner now an additional compensation, and that he in turn would by that purpose relieve the owner of the mine from paying him so that both the owner of the mine and the miner would be subsidized. Would that also cause an international panic?

Dr. BEHRMAN. Not by the same amount in my view that a change in the price of gold would, or a two-price system such as mentioned here.

Senator GRUENING. I wish the Department of Commerce, which has jurisdiction over the Area Redevelopment Administration, would propose some specific amendments to this legislation which would enable it to be directly beneficial to the gold miner.

You suggest this as an avenue of approach, but under the existing legislation, I don't see how it would be applicable. How about having the Department of Commerce come up with an amendment to this bill which would be specifically directed to aiding the gold miners? Do you think you could do something like that?

Dr. BEHRMAN. We would be glad to look into that, Mr. Chairman.

Senator GRUENING. I wish you would. Merely offering them more research when the mines have gone out of existence isn't very constructive. It's like offering a hungry man a bill of fare and letting it go at that. I mean, it isn't very nourishing to offer them research when the mines are on the way to extinction.

Dr. BEHRMAN. There haven't been a great many technological advances in gold mining, Mr. Chairman, and this is a way in which it might be possible to bring gold back, if there are technological breakthroughs in mining.

Senator GRUENING. We will be glad to have that done. That is a function of the Department of the Interior. But the crisis is immediate. The mining industry is in a desperate way, and research is a long-range affair.

Dr. BEHRMAN. That is understood.

Senator GRUENING. But the one constructive thing that I can see here as at least a possibility, a faint glimmer of hope on the horizon, is that you think area redevelopment might somehow aid the gold mining industry and I would like very much to have the Department of Commerce through its Area Redevelopment Administration give

us, before the conclusion of these hearings—we will keep the record open for a few weeks—some specific recommendations that we can present to the Congress as to how the area redevelopment legislation would help gold mining.

Dr. BEHRMAN. I would be glad to do that.
(The information requested follows:)

THE ASSISTANT SECRETARY OF COMMERCE,
Washington, D.C., August 12, 1963.

HON. ERNEST GRUENING,

Chairman, Subcommittee on Minerals, Materials, and Fuels of the Committee on Interior and Insular Affairs, Washington, D.C.

DEAR MR. CHAIRMAN: At the hearing held on July 15 on S. 100 and S. 1273, I was asked for recommendations from our Department, through its Area Redevelopment Administration, as to how area redevelopment legislation would help gold mining (transcript, p. 92).

The matter has been considered both in terms of the present law and possible changes or amendments. Section 11 of the Area Redevelopment Act currently provides that technical assistance may be made available not only to designated redevelopment areas but also to other areas which have a substantial need for such assistance. This authority provides a basis for research and development technical assistance which may make it possible to increase gold production at lower cost. Moreover, the act provides for the occupational training of unemployed and underemployed residents of designated redevelopment areas as well as for retraining subsistence payments to those persons undergoing training.

Also, S. 1163, a bill to amend certain provisions of the Area Redevelopment Act, has passed the Senate and is currently pending in the House of Representatives. S. 1163 would increase the amount of funds available to continue the area redevelopment program for the next 2 years, and would make changes in the Area Redevelopment Act which experience has demonstrated are necessary to continue this program effectively and efficiently. The proposed amendments would, among other things, make the following changes:

- (1) Increase the amount authorized to be outstanding for industrial or commercial loans from \$100 to \$250 million for projects in urban areas.
- (2) Increase the amount authorized to be outstanding for industrial or commercial loans from \$100 to \$250 million for projects in rural areas.
- (3) Increase the amount authorized to be outstanding for public facility loans from \$100 to \$150 million.
- (4) Increase the authorization for appropriations for public facility grants from \$75 to \$175 million.
- (5) Increase the annual authorizations for appropriations for technical assistance from \$4.5 to \$10 million.

We think the existing Area Redevelopment Administration authority, supplemented by the new money which S. 1163 would authorize, is capable of being of considerable help to the gold-mining industry, by making possible research and development technical assistance to modernize and improve gold-mining techniques, and can also help depressed areas in which gold-mining enterprises are located.

We trust that this information will be helpful to you. We are returning herewith the corrected transcript of the hearing.

Sincerely yours,

JACK N. BEHRMAN.

Senator GRUENING. It is a specific problem and we appreciate your addressing yourself to it. Thank you very much.

Senator Jordan, have you any questions?

Senator JORDAN. No question except to comment, I think there is a better way to do it than through the Area Redevelopment Administration.

Senator GRUENING. We were hopeful that the Department of Commerce, which has a somewhat different function from that of the Treasury Department, the Interior Department, is trying presumably to increase our industrial activity, would have something new and

slightly more constructive. I must say that I am somewhat disappointed that we have got nothing more, very little more, anyhow, than a repetition of these fears that have been voiced by the Treasury Department and which fears have been extended to every other department of the Government.

Dr. BEHRMAN. It is a common malady.

Senator GRUENING. We feel they are entirely groundless. I think you could subsidize gold and there would be no effect whatsoever except to benefit a very important segment of our economy, which has been grossly discriminated against.

Thank you very much.

Dr. BEHRMAN. Thank you, sir.

Senator GRUENING. We will recess until tomorrow morning at 10 o'clock.

(Whereupon, at 12:25 p.m., the committee recessed until 10 a.m. on Tuesday, July 16, 1963.)

DOMESTIC GOLD PRODUCTION

TUESDAY, JULY 16, 1963

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 recess, at 10:05 a.m., in room 3110, New Senate Office Building, Senator Ernest Gruening presiding.

Present: Senators Ernest Gruening, Alan Bible, and Frank E. Moss. Senator GRUENING. The committee will please come to order.

We are honored to have this morning as our first witness my Alaska colleague, Senator E. L. (Bob) Bartlett, who has had experience as a gold miner as well as long governmental service. He is therefore doubly qualified as an expert witness.

We are very happy to have you here, Senator Bartlett. You may proceed in your own way.

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

Senator BARTLETT. Mr. Chairman, I am most happy to be here on this subject and I want to thank you for according me the opportunity of appearing before you.

It is a pleasure and a privilege, Mr. Chairman, to appear before this subcommittee today. I endorse strongly the intent of S. 1273, of which I am a cosponsor, and S. 100.

I guess, Mr. Chairman, we could say, appropriately, here we are again.

Often I wonder why we western Senators bother, year after year, to fight for much-needed assistance for the domestic mining industry. Democratic and Republican administrations come and go, yet Treasury opposition remains firm and inflexible—and, apparently, all-powerful.

But when I consider further, I realize why we are here year after year, because our cause is right and one day it will prevail.

Gold mining, as you know so well, Mr. Chairman, is no longer a large industry. In 1961 only 1,526,757 ounces were mined as compared to the 4,870,000 ounces produced in 1940, only 23 years ago.

Alaska's share in new gold production has dropped even more than has the national production. In 1940 Alaska produced 15.37 percent of the Nation's new gold. In 1960 it produced but 7.5 percent. This is a sharp reflection of the hopeless profit squeeze in the mining of gold. This is so because gold produced in Alaska comes largely from mines mining only gold. Today a large part of the Nation's new gold comes as a side product from base metal mines. Only the most hardheaded,

hardrock miner and placer miner will attempt to make a go at the mining of gold for gold's sake.

In 1954 Alaska produced close to 350,000 ounces of gold; in 1961 it produced little more than 100,000 ounces; in future years Alaska may have no gold production at all.

I have just returned from Alaska. I have seen gigantic dredges—the world's largest—standing unused and still.

The domestic gold mining industry is in a severe and extended depression caused almost entirely by Government regulation.

Other industries receive subsidies and assistance to keep them in a prosperous state. I can think of no other industry, aside from gold mining, which is kept in a depressed state as the result of a conscious Government policy.

Many millions of words have been expended on gold in recent years. These clouds of verbiage have tended to obscure and confuse the situation. There is need for clarification and national thought.

There is nothing special about the gold mining industry; there is, however, something special about its product. The domestic gold industry is simply an industry operating as any other. Its product is gold, a metal which is a measure of value and a measure of exchange across the world.

In 1934 the Government announced that it would buy gold from all comers at \$35 an ounce. It has continued to do so ever since. In past years this has had an important and stabilizing effect upon world financial transactions. Even though the United States is not on the gold standard, this policy has established a relation between the value of the dollar and the price of gold. Inescapably, for the Government to alter the price of one would be to alter the value of the other.

This is but one of the purposes to which gold as a product may be put. There are, of course, many other purposes—jewelry, religious articles, dental needs, industrial. The price of the product, gold, has been kept at \$35 per ounce by a policy of the U.S. Government.

This is the amount the gold miner receives when he sells his product. Unfortunately, the gold miner's costs have not remained at the 1934 level, as has the price of his product. Labor, transport, and equipment all have increased substantially in price. Senators, for example, are paid more than twice what they were in 1934; the price of bread has increased 300 percent; a bottle of bourbon has gone up well over 300 percent in value. The baker and the brewer and the distiller are paid more for their wares. The gold miner is not.

Much of the recent talk of gold has concerned the outflow of our balance of payments.

It is true there has been substantial and continuing outflow of gold. This is, however, a sign not so much—in my judgment—of an increasing weakness of the dollar as it is the increase in the stability of European currencies and the improved security and confidence of European nations. The disparity in our balance of payments is a reflection not of serious trade problems so much as it is the result of the cost of maintaining the defenses of the free world and of assisting free peoples in their economic development.

As we all know, the Department of the Treasury has consistently argued that we could not assist the domestic gold mining industry—whether by means of subsidies, increased depletion allowances, or

stabilization—without at the same time and by the same act, increasing the price of gold. Such an act, Treasury argues, would be interpreted by the bankers of the world as a de facto devaluation of the dollar. This, of course, Treasury believes, would lead to widespread loss of confidence in the dollar as a haven for capital wealth and would lead to a greatly increased flight of gold abroad.

It has always seemed to me that by this argument Treasury itself displays a singular lack of confidence in the dollar's strength. The dollar is by no means the shaky thing Treasury thinks it is. This kind of thinking and speaking, on the part of a U.S. Government agency, surely causes more harm abroad than could any domestic subsidy program.

The error in Treasury's argument lies in thinking of the outflow of gold as the disease rather than the symptom, which it really is. The flow of gold, in or out, is determined by the amount of confidence, or lack thereof, in the dollar. Confidence is determined by many factors, undoubtedly the very least of which is the policy determination whether to subsidize domestic gold producers or not. Surely the subsidization of domestic gold producers could make no real difference in our balance of payments.

Our neighbor nation to the north has subsidized gold production since 1948. Canada produces 4 million ounces of gold a year. Compare this to the U.S. production of one and a half million ounces. As does Canada, the United States has vast gold resources. And yet, Canadian production remains stable while American production continues to drop. The Canadian subsidy program has been in operation 15 years. During this period gold production has been sustained and the Canadian dollar has been none the weaker as a result.

I am convinced, Mr. Chairman, that the Treasury Department is well aware that a modest subsidization program for domestic gold mining would not in any serious way weaken the dollar or add to our balance-of-payments problems. I have been introducing legislation to assist the domestic gold mining industry since 1945. Since 1945 the Treasury has opposed such assistance. They have opposed it in times when our balance of payments was overwhelmingly favorable. They have opposed it in times when the American dollar was stronger than any currency has ever been in history. They are against such assistance in fair economic weather or foul.

What this opposition has meant is that American domestic gold producers have been subsidizing commercial purchasers of gold and the bankers and financiers.

I do not accept the argument that a domestic mining subsidy would harm our balance of payments. In like manner I do not accept the argument that a subsidy of domestic mining would, in the long run, help our balance of payments. I do not believe there is, in any real sense, a connection at all.

Once the distinction is made between the production of gold as an industry and the use of gold as a means of exchange, the situation is clarified. The need for subsidy assistance to the U.S. gold industry is clear and straightforward. Gold is a product. It is useful for a country to have. Once mined it is always held. It is not thrown out, used up, or superseded. It does not go out of style. It is in the interests of the Nation that we make use of the ample resources of gold that have been given us.

The bills before the subcommittee today seek workable methods of doing this. S. 100 would provide for a study of the industry in order to develop a program of remedial action. It also provides that the Government will not sell its resources on the commercial market.

S. 1273 makes a clear distinction between the monetary price of gold as determined by the Treasury and a proposed price to be paid domestic producers, to be determined, sensibly enough, by the Secretary of the Interior. The Department of the Interior would have the authority to purchase domestic gold at a price up to \$105 an ounce. This would be sold in turn for nonmonetary uses in the marketplace. The Department would be authorized to transfer to the Treasury any gold not disposed of in the marketplace; Treasury would, of course, pay \$105 an ounce for such gold.

It is not my intention today to insist upon a particular form of subsidy over another. It is the work of the subcommittee to determine just what formula would be more beneficial to the Nation and to the mining industry.

I want only to point out that the outflow of gold and the assistance to the domestic gold industry are two separate and distinct subjects. We do little good to the miners or to the Nation when we confuse the two.

In conclusion, Mr. Chairman, I should say that it is my earnest hope that now, at long last, even if belatedly, this committee and the corresponding committee in the House and the Congress itself, will act affirmatively upon this long-neglected proposition.

Thank you very much.

Senator GRUENING. Thank you very much, Senator Bartlett. You have made a very effective presentation.

I would like to ask you one or two questions.

In addition to the policy which successive administrations have pursued in limiting the sale of gold and in confining the gold market to a price established 29 years ago, there was a further act of unique discrimination in the early days of the war with regard to gold. Do you recall what that was?

Senator BARTLETT. I do. I recall that the Government, to all intents and purposes, told the gold mining industry that as a war measure, it would have to close down—there were exemptions for some smaller mines, but by and large, by Government edict, the gold mining industry went out of business for a long period of time. No other industry, no other business, within my knowledge, had similar treatment. It was often said during these days that race tracks kept going, amusement places throughout the Nation were not controlled by the Government, but this one industry, for reasons still unknown to me, was suspended.

I happened to have some stock in a gold mine company in Alaska at that time, \$125 worth of stock. My recollection is that this was the first mine to respond to that order in the entire United States. It closed down, and of course, by the end of the war, prices had gone so high that this mine has never reopened, although up to then, it had employed up to 50 men, made a substantial contribution to the economy of the particular district, and through its production of gold in one manner of description, to the entire Nation.

Senator GRUENING. On the basis of that action by the Federal Government alone, the gold mining industry was entitled to sympathy and

understanding and constructive remedial legislation when the emergency was over, was it not?

Senator BARTLETT. I think so. But the fact is that from the start of the war and ever since then, the Government has put a headlock on the gold mining industry and has never released it yet.

It is a marvelous thing, in a sense, that the gold mining industry, having had that headlock on it for all these years, is still alive at all.

Senator GRUENING. Now, there were other nations that were associated with us in the war that retained the gold policy status quo, such as Canada and South Africa. Did they have such a destructive policy in respect to gold mining?

Senator BARTLETT. They did not. They saw to it that there was a steady flow of gold mining production and they continued to encourage this industry rather than to hamper it.

Senator GRUENING. So that the gold mining industry in the United States was uniquely the victim of Federal discrimination as contrasted with no such action in other nations with regard to their gold resource.

Senator BARTLETT. Uniquely and strangely.

Senator GRUENING. Then after the war, as you point out, prices had gone up, labor costs and materials, and at the same time, we were confined—we, speaking of the gold mining industry—to the 1934 prices set by President Franklin Delano Roosevelt?

Senator BARTLETT. This is right. If a higher price, a suitably higher price, were now to be paid for gold, there would be a tremendous revival throughout all the gold regions of the United States, of which there are many.

Gold is not in short supply. There is plenty of gold to be mined. It cannot be mined under present circumstances. It will be mined if an attractive price is paid.

Senator GRUENING. You correctly pointed out the distinction between gold as a monetary factor and gold as an industrial material. You point out that they can be and should be distinguished and that gold as an industrial product could and should benefit from a subsidy. But unfortunately, the Treasury Department has developed this mystique—I know of no other word that is appropriate in these circumstances. It is one of these newly fashionable words one hesitates to use—but this is truly a mystique to the effect that somehow, its officialdom feels, if the gold miner is granted a subsidy there will be a panic, there will be a raid on the dollar and confusion will prevail throughout the financial world.

When we have had hearings on gold here before this subcommittee in the last Congress, a considerable number of our colleagues were present and this argument—this mystique—was presented by the Under Secretary of the Treasury, Mr. Robert V. Roosa. None of us could understand or follow his logic.

I would like to ask you whether you are able to follow his logic.

Senator BARTLETT. I interpret, for purposes of our discussion, the word "mystique" to mean policy, and therefore I am obliged to answer you in the negative.

I have never been able to understand the arguments advanced by any official of the Department on this subject. I think they deviate from logic. I think this is perhaps adequately illustrated by the fact that Canada has taken a course directly opposite to that which we have and yet the Canadian dollar has not been diluted as a consequence.

Senator GRUENING. Now, the Treasury Department, of course, has functions other than monetary. One would assume that the Treasury Department is also interested in the development of our economy and yet, after these constantly negative and mystiquely negative responses, the subcommittee last year, under the chairmanship of Senator Carroll, of Colorado, requested the Treasury Department if it did not agree with the proposed measures to come up with some reasonable alternative, some way of helping gold mining to survive.

There was no answer whatsoever, no reply was made.

We are going to repeat that request. I wonder how the Treasury Department can justify this completely negative attitude. Certainly, the Secretary of the Treasury is committed to the free enterprise system, and yet we have here a unique example of one industry among all others that is hamstrung, that is strangled, that is constricted in a way that makes it impossible to survive.

And the shocking thing about this is that this happens only in America. In no other nation where there is gold do we have these policies. Other nations value gold, are mining gold, are hoarding gold, are accumulating gold supplies.

We are losing ours and doing nothing about it. I think this is a depressing situation and yet I am still hopeful that at the end of these hearings we will be able to arouse sufficient interest to secure understanding of the injustice and the unfairness of the situation so that the Treasury Department and the administration will come up with some constructive proposal to enable our gold miners to revive and survive.

Senator BARTLETT. I would not suggest that you become too optimistic about any such proposal being offered, but on the other hand, I would urge you not to abandon hope. I recall that in the 79th Congress, a high official of the Bureau of Indian Affairs came to me and asked me if I would introduce in the Congress in the House of Representatives a certain bill he desired.

I did and that Congress expired without the Bureau or the Department having made a report upon the bill. I asked in the next Congress if this should be one of the bills to be introduced, and he said yes, it was imperative. I said I would do it but it was imperative that there be an affirmative report on it if it was passed.

That Congress expired without a report having been made on the bill by the Department of the Interior. But the third Congress saw it passed.

For years, we have been urging the Maritime Commission to submit proposals for the so-called offshore areas of the United States and the urging so far has been in vain. So we should not give up on this bill.

What I can't understand, among many other things in connection with this gold situation, is why the Treasury Department is not willing to put into effect at a minimum a modest program which would enable us to mine domestically at least the same amount of gold we consumed domestically. That seems to make good sense, but apparently not to the Department.

Senator GRUENING. Well, I do feel that the outlook is not promising. But our cause is just and right and we intend to pursue it and keep on pursuing it. I am not without hope that a situation may develop which will give us some help.

We are very grateful to you, our colleague, for this very able presentation. No one is more knowledgeable on the subject than you are.

You have lived in Alaska all your life, have seen a once great industry decline almost to the vanishing point, and you have seen the resulting distress to our economy, to individuals, and to communities, and you know the same thing is happening throughout the West.

Senator BARTLETT. I thank you for those words. It has been a privilege to appear here. I am indeed one of the most successful gold miners in Alaska, as I told you before, because when I quit, I didn't owe anyone a penny. I told you that before. I hope before this summer is out I will have opportunity to join you on the floor of the Senate in advocating passage of the bill on this subject.

Thank you. Thank you very much.

Senator GRUENING. Thank you very much, Senator Bartlett.

The next witness is Mr. Robert S. Palmer, executive vice president of the Colorado Mining Association of Denver, Colo., once one of the great gold mining States.

At one time it was first in the production of gold.

**STATEMENT OF ROBERT S. PALMER, EXECUTIVE VICE PRESIDENT,
COLORADO MINING ASSOCIATION, AND EXECUTIVE DIRECTOR,
MINING INDUSTRIAL DEVELOPMENT BOARD**

Mr. PALMER. I believe that is correct, Mr. Chairman.

Senator GRUENING. Would you proceed, Mr. Palmer? We are very happy to have you here.

Mr. PALMER. Thank you, Mr. Chairman.

I bring you personal greetings from the Governor of the State of Colorado, the Honorable John Love, and Mr. Shoup, just before I left Colorado, asked to be remembered to you.

Literally hundreds of people who are not actively engaged in mining have called me on the phone in my office in Denver and extend to you, sir, their hopeful greetings that something will be done to encourage a revival of a very vital industry to the entire western part of the country.

Some mention was made yesterday to the testimony that here are people out of work and engaged actively in mining, but little mention has been made of the vast number of people in the East and throughout the other parts of the country, sir, who are holding stock and interest in western mines that would like to receive some dividends on their holdings. So when I read an article in an eastern paper written, I suppose, the way articles are written in a situation like this contest, I am a little bit set back that these people are not interested in their own citizens who are vitally concerned with the development of the mines of the country which undoubtedly are located largely in the West.

I simply make mention of this, because I recognize the same tactics in the attack upon any legislation designed to help the gold miners which were used in the fight on silver.

Your courtesy in extending an invitation to appear at your hearings on gold and to discuss in particular two bills being considered by your committee is greatly appreciated.

In your release you mention that—

Gold, and the lure of it and the search for it, has been a cornerstone in the development of the Western civilization. It was gold that lured the Spanish conquistadors to the New World a century before the Pilgrim Fathers; it was gold that caused so many of our pioneer forefathers to endure the hardships and brave the dangers of our early wilderness; later, to drive on to Alaska to win the West.

It was gold which caused the beginning of mining in Colorado, according to T. A. Rickard, eminent authority on mining, who in his address before the National Western Mining Conference, entitled "The Flag Follows the Pick," pointed out that—

At the time gold was discovered in Colorado, Colorado was a part of Kansas; that these discoveries were a sequel to the discoveries of gold in California; the Russell brothers and their friends from Georgia found gold in 1849 in Cherry Creek, close to Denver, while on their way to California. After mining successfully at Downieville, the party returned in 1858 to the place on the Platte River where they had found gold 9 years previously. From there they started to prospect the mountains westward and found outcroppings of gold veins leading to the discovery of the Gregory Lode on May 6, 1859, which is recorded as the birthday of Colorado's mining industry.

Mr. Rickard, in his eminent address, pointed out that—

A miner is any man that does the work of a miner, which is to extract ore from the ground. Most of the young and lusty men who rushed to California had never seen a mine, but that did not matter—they went to do the work of mining, and with the washing of the first pan of gold-bearing gravel, they joined the brotherhood of the pick and gad; they had machinery most used in mining—human muscle; they had the science most approved in that ancient art—organized commonsense; they achieved the fundamental purpose of mining, to extract mineral profitably; they came, they worked, they conquered, and from their labors arose a great and glorious commonwealth.

This bit of historical comment is made to cleanse the minds of those who may adhere to the Keynes theory that gold is a relic of barbarism. The treatment accorded this industry by the Federal Government is hardly in line with its historical significance and its economic importance. Domestic mine production of recoverable gold in 1961 is established at 1.5 million ounces valued at \$54.2 million. This was a decrease of 7 percent from the previous year and the lowest peacetime production figure since 1885. Gold mining operations continued to be adversely affected by constantly rising costs, while the fixed price of gold is strictly enforced.

Gold production in Colorado is, in the main, a byproduct of mines producing other metals. Primary gold mines are practically non-existent. Recorded production has fallen from approximately \$29 million in 1900 (\$28,762,036), at \$20.67 an ounce, to 50,000 ounces (48,000) having a value of \$1,708,000 in 1962. The total amount of gold produced in the Centennial State from its discovery to the present is fixed at 42,662,886 ounces, with a valuation of approximately \$1 billion (\$917,007,949).

I would like to call your attention to the fact, which has been mentioned in these hearings, that the consumption of gold is a little more than twice the present production, outside its monetary uses.

The gold mined has contributed to the safety, security, economic well-being, and development of the Nation. The miners engaged in gold mining were forced to close down their workings during World War II through the issuance of the infamous Gold Mine Closing Order L-208. The issuance of this order was strongly opposed by the mem-

bers of the Senate Interior and Insular Affairs Committee as being arbitrary and totally unjustified.

Four leading gold miners and I were called to Washington at the time to learn the bad news. The list included Guy Bridges of the Homestake Mining Co.; Merrill Shoup of the Golden Cycle Corp.; the late Senators Thomas McCormick of Natomas Dredging Co. of California, and the late Errol MacBoyle of the Idaho-Maryland Mines Co. of California.

As coordinator of mines for Colorado, I was directed by Dr. Wilbur Nelson, then head of the War Production Board's Priority Division, to refuse to supply any equipment priorities to gold mining operators. This seemed arbitrary, as Russian delegations visiting Denver were able to secure approval for shipments of placer mining equipment, including highly essential items, to Russia to increase gold mining activity.

Mr. Chairman, I would like to say here, if I may, that I had the privilege of talking to some of these delegates from Russia at that time in the Brown Palace Hotel in Denver. I asked why they insisted on essential items being used in the manufacture of placer mining equipment which was being shipped to Russia at that time to help in the production of gold in Russian placer mining operations. They said that the Federal Government representatives were encouraging them to request the finest equipment that the American industry could manufacture for use in increasing gold production in Russia.

I have in my office in Denver publications from Russia with pictures, and some of the machinery has been identified by manufacturers in the Denver area as having come from this country.

It was very difficult for those of us at the time to understand why this order was issued closing down not only lode mining operations but placer mining operations when machinery was being furnished to our allies to increase production in other areas.

The late Governor of our State, Ralph Carr, and I journeyed to a mass meeting in Reno, Nev., where strong opposition to issuance of the order was made.

I think there were about 3,000 people at that meeting, Mr. Chairman.

A second meeting attended by irate citizens was held in the capitol in Denver. The order was not legally contested at the time but later the U.S. Court of Claims held in effect that "the agency issuing the order had exceeded its authority." The same Supreme Court which negated the gold clause provisions in certain bonds reversed the Court of Claims and the gold miners received nothing for their losses and irreparable damage incurred by reason of this order.

At the time, the National City Bank of New York (December 1942) issued a bulletin as follows:

The decision of the War Production Board in October suspending gold mining in this country for the duration of the war and the report of the gold coins being used in some instances by our troops in north Africa have supplied a curiously conflicting mixture of news about gold, and has renewed discussion of the future of that important metal.

The Secretary of the Treasury, at the time, pointed out that—

Closing of the gold mines would not mean any change in the Treasury gold-buying policy or in prevailing price of \$35 a fine ounce.

May I ask here, Mr. Chairman, is this \$35 an ounce a magic figure? What if President Roosevelt had selected \$70 or \$75? Would that have been a magic figure? Why \$35? Is \$40 a good figure? Is \$50? Who set this price? Who determined this price of gold, this ceiling on the product of our mines?

It was generally understood, when the order was placed in effect, that subsequent to the war, those producing gold would be compensated for losses incurred by receiving a higher price for their product.

Senator BIBLE. At that point, might I interrupt to ask Mr. Palmer, do you develop in your statement, Bob, the results of these court decisions? As I recall it, the court decisions were against compensating for loss. I always thought the decisions were wrong in that respect; nevertheless those were the decisions. I don't know if you have this in the record. If not, you should supply it, as to the outcome of the court decisions. They were practically all adverse, weren't they?

Mr. PALMER. The Court of Claims sustained the position of the gold mining industry, in effect, by claiming, in effect, that the authority for the closing order was not justified. However, the Court of Claims indicated that it would be desirable for the miners to be more specific in indicating the losses that they had incurred. The case was appealed, of course, to the U.S. Supreme Court, and reversed, as you recall. But the point is that at least in the circuit court of appeals, the judges there indicated that the position of the gold mining industry was justified and that the order was not justified.

Senator BIBLE. Did the gold industry ever receive any compensation for their losses as a result of L-208?

Mr. PALMER. Nothing.

Senator GRUENING. Please proceed, Mr. Palmer.

Mr. PALMER. Only brief reference is made to the Bretton Woods Agreements with respect to the International Monetary Fund and the International Bank. Without imposing upon your good nature, Mr. Chairman, I will say that I was present at these conferences at Bretton Woods and it was very interesting to hear some of the economists there at that meeting discuss the subject of gold. It was at that meeting that the productivity of a nation theory to support the monetary base was concocted and it was at that meeting that gold was assigned to probably the lowest place that it had enjoyed in its history. But it was also at that meeting that it was declared inexpedient to do away with gold as an international medium of exchange.

Apparently, both of these institutions are firm in their conviction that "from a monetary standpoint, gold should be maintained at \$35 an ounce to insure stability for the American dollar."

The total domestic production of gold is less than \$55 million while I am told the national debt is given at \$309 billion which may be attained in August, when I understand Congress will be asked to raise the debt limit further.

The point here is that the domestic production of gold is insignificant when compared with the overall monetary questions. The discrimination against the gold mining industry which apparently is a legal enterprise constrained by its government from profitable operation through a fixed price on its product.

The position of the Treasury, stated at our meetings in Denver with reference to gold, indicates that the Treasury does not favor a two-price system for it is the stated opinion of spokesmen for that executive department that such a policy would not be understood by foreign governments and would have a tendency to weaken the stability of the American dollar.

This position can strongly be contested on the basis that a two-price system in Canada and Australia has not weakened the Canadian dollar or the Australian pound; nor can it be traced as having any significance whatever on the overall economy of those two countries, except that it stimulates industry and employment in those areas where shutdowns and unemployment would result without such a thoughtful program being placed in operation.

May I remark here also, Mr. Chairman, that the Canadian Government, the Australian Government, the South African Government and other governments at international conferences which I have been privileged to attend as an observer have consistently urged increases in the price of gold.

It is clear that there is nothing in the Bretton Woods Agreements which would prevent the Federal Government from paying a bonus to domestic producers primarily engaged in the production of gold.

This proposal has been supported by the American Mining Congress and by the organization which I represent and I feel would receive favorable reaction from the majority of the people of the States in which gold mining is, or was, an important industry.

Therefore, we strongly support both pieces of legislation pending before your committee regarding an increase of the price of gold and express our sincere appreciation for the efforts of the sponsors in introducing these two important pieces of legislation.

CONCLUSION

In concluding this short statement, please permit me to make a few personal observations:

First, if the real price of gold is not higher than the Government fixed price, why does the Government refuse to take the shackles off of gold transactions? Why an export license requirement with strict enforcement against export of gold in excess of licensed amounts?

Why do other governments place restrictions on imports of gold in the form of heavy import duties and restrictions? Why is gold, a legitimate product, denied the right of the free market?

Why are people denied the right to own gold and sell it to the highest bidders at home and abroad? Is there any other legitimate product of American industry treated with such rank discrimination? Why can the citizens of certain other countries demand gold in payment of obligations and citizens of the United States be refused this some right?

The Treasury has failed to prove that the amount of newly mined gold has any noticeable effect upon monetary questions, yet the minute gold prices start to rise on the London market, the Treasury rushes in to depress the market with the people's gold. Could the producer of any other product exist under such circumstances? I think not.

What is vitally needed, in my humble judgment, is relief from the shackles which control free maneuverability of newly mined gold. If gold miners in the United States were permitted to sell their gold on the open market at prices which people would be willing to pay for such gold, no subsidy would be required, provided, further, that licensing authority be done away with and restrictive import and export duties cast aside.

International solutions are possible, provided our Government contains its announced opposition to an increased price. Such a program would not be confined to the United States, nor can it be shown that it would have any material effect upon the stability of the American dollar.

The gold miners are not selfish individuals; they are not preaching panic; they are not prophesying chaos; they do, however, in a great many cases, ask the right to sell a legitimate product of their mines on a legitimate market either here or abroad without interference from their Government or foreign governments.

If gold prices were permitted to seek their own level, it is my humble opinion that we would see one of the greatest gold booms in the history of the Nation and that we would see areas like Cripple Creek revived and rebuilt, with commensurate benefits to all of the various lines of business which rely on mining. Alaska's economy would be greatly strengthened and that of many other States throughout the Nation which are now witnessing trends toward unemployment.

Any constructive course of action will be supported by the organization which I am privileged to represent. A subsidy to the gold mining industry is justified, including an additional study of the gold question, which is most desirable; a free and open market would be highly satisfactory.

We urge with all of our ability this committee, the Senate, and all Members of Congress to support legislation designed to revive, rebuild, and rejuvenate an industry which has contributed so much to the advancement of our Nation, and of the world.

Please accept our sincere thanks for the privilege of my appearing before you.

Thank you, Mr. Chairman.

Senator GRUENING. Thank you very much, Mr. Palmer, for your very excellent statement. I think it is clear that as far as the chairman of this subcommittee is concerned, we find ourselves in agreement with your statement.

Questions?

Senator BIBLE. That is a very fine statement, Mr. Palmer. Mr. Palmer, as you know, Mr. Chairman, is one of the great authorities in the field of gold and it is always a pleasure to see him before this committee. I agree with his observations. I hope we can do something about it.

I would be inclined to think that the area that would stand the greatest possibility of success is the area of having a free and open market for gold. I have always subscribed to that. It seems to me that Mr. Palmer makes out an excellent case in behalf of the free world market for gold.

Senator GRUENING. I would like to ask, Mr. Palmer, whether in addition to the two bills which you favor, you have any suggestions

as to other legislation which would be helpful? We are in a very receptive state of mind and if your organization would like to present any other legislation with regard to the free market or anything else relating to gold, we would be most happy to receive it and give it hearing and consideration.

Mr. PALMER. Thank you very much, Mr. Chairman. You are indeed most considerate and courteous. We are looking to the leadership of this committee and I feel that the members of the organization that I represent are most anxious to cooperate in every way with the committee.

In the event that some great genius comes forth with a new idea, we will be certainly happy to forward it to your committee for consideration.

Senator GRUENING. We would appreciate it.

Senator MOSS?

Senator MOSS. I really don't have any questions, Mr. Chairman. I was interested in hearing Mr. Palmer's statement. I am in general agreement with his observations. This is the problem that we have been wrestling with in this committee and we are looking now for some answers to see if we can remedy the situation that has grown up over the years in the problem of gold. I am very happy to have an expert like Mr. Palmer come here to give us his testimony.

Senator GRUENING. Thank you very much, Mr. Palmer.

The next witness is Dr. Elgin Groseclose, author and economic and financial consultant. He is one of our most eloquent and knowledgeable experts to appear before us.

We are happy to have you, Mr. Groseclose.

STATEMENT OF ELGIN GROSECLOSE, PH. D., OF GROSECLOSE, WILLIAMS & ASSOCIATES, FINANCIAL ANALYSTS AND CONSULTANTS

Mr. GROSECLOSE. Mr. Chairman, I appreciate the invitation of the committee to give my views on pending gold bills and thank you for the privilege.

As my prepared statement is rather lengthy, I will ask the privilege of filing it as though read and then I will confine my oral statement to certain parts of my prepared statement.

Senator GRUENING. The statement will appear in full at this point in the record. Then I suggest you proceed in whatever way you feel best to bring out the high spots.

(The complete prepared statement of Dr. Groseclose follows:)

STATEMENT OF ELGIN GROSECLOSE, PH. D., OF GROSECLOSE, WILLIAMS & ASSOCIATES, FINANCIAL ANALYSTS AND CONSULTANTS

Mr. Chairman, I appreciate the invitation of the committee to give my views on pending gold bills, and thank you for the privilege. Before you are S. 1273, introduced by Senator Gruening of Alaska and a bipartisan group of Senators concerned with gold mining, and S. 100 by Senator Dominick of Colorado, both of which would impose stricter controls on commercial uses of gold. In addition, Senator Gruening's bill would authorize incentive payments of up to \$105 an ounce for newly mined domestic gold. I appear before you as an economist who for nearly 40 years has been concerned with the functions of the precious metals as money, and who has for a number of years served as economic consultant to various elements of the gold and silver producing industries of this country.

Neither I, nor the firm which I head, Groseclose, Williams & Associates, financial analysts and consultants of this city, have been engaged as legislative representatives on behalf of these industries to sponsor or to oppose any legislation. What I shall present represents my own views on the subject, and not necessarily those of the gold mining industry nor of my firm's clients.

EXPERIENCE IN SOVIET RUSSIA

A brief résumé of my experience with the question before the committee may be of some use in assessing the weight to be accorded my views. Following World War I, I did relief work in northwestern Iran and the Soviet Caucasus, regions then in a state of political and economic anarchy. In northwestern Iran an ample supply of good silver money was a powerful aid in our efforts to restore the village economy devastated by invasion, warfare, and political collapse. In the Soviet Caucasus, all economic activity was in paralysis due to a flood of paper money that had reduced the value of the note issue to nearly zero—bread was almost sold by its weight in paper rubles—and such trade as did exist was sustained by the existence in circulation of a modest amount of Turkish gold lira and other gold coins. Thus, despite the teachings of Marx and the contempt which Lenin is supposed to have expressed for gold—you will recall that he is supposed to have said that they would use it to pave their latrines—it was gold coins and gold coins only that permitted trade to rise above the primitive conditions of barter.

On my return to the United States I became for several years special agent in the U.S. Department of Commerce and the Department's specialist in Far Eastern finance, responsible for keeping the Department advised regarding gold and silver movements, and during this period the Department published my studies, "Currency Systems of the Orient," and "Budgets of Far Eastern Countries." Subsequently I had Wall Street experience with what is now the Morgan Guaranty Trust Co., was the first financial editor of *Fortune*, and taught at the University of Oklahoma. In 1934, the University of Oklahoma Press published my "Money: The Human Conflict," a survey of monetary experience, a work that was republished in 1961, after revisions to bring the story down to date, under the title "Money and Man."

WORLD WAR II INFLATION

In 1943 I was appointed Treasurer-General of Iran by action of the Iranian Parliament, with a principal task that of combating the inflation that was then on the verge of reducing the country to a new anarchy. In the interval between my first and second visits, Iran, following the example of so many many countries under the tutelage of American money doctors, had abandoned its good silver coinage for a system of managed money and paper currency. Recalling the lessons of my earlier experience, I recommended reopening of the gold market and arranged for the sale of gold by the national bank. The measure was effective. Gold was allowed to perform its proper function in the economy, inflation was checked, and the policy was adopted throughout the Middle East theater. I learned later that a similar policy had been recommended in the case of China by Dr. Arthur Young, adviser to the Chinese Nationalist Government, but had never been fully implemented.

Since 1944 I have been engaged in economic consultant work with an international clientele, and in 1960 was instrumental, with several like-minded persons, in organizing the Institute for Monetary Research, Inc., a nonprofit organization to foster research into monetary phenomena and to promote a wider understanding of monetary behavior through the publication and dissemination of the results of research. In 1962 this institute published a monograph of my authorship entitled "The Decay of Money: A Survey of Western Currencies, 1912-62."

As the foregoing outline indicates, my views of the gold question derive from practical experience with the question rather than theoretical propositions.

PRECIOUS METALS AS MONEY

My principal observation is that the only sound money is a money based upon the precious metals gold and silver. I believe that both gold and silver have a place in the monetary system, though not at a fixed ratio which was the pitfall into which so many economists of the 19th century fell.

Money that is backed by commercial or public debt can never command the universal acceptance of money backed by gold. The best evidence of this is that despite all the theories regarding the ratio, all governments hold gold in their monetary systems; they seek to maintain, if not increase, their reserves of gold; and they include in their foreign exchange reserves only those currencies that are gold convertible. Gold is the only commodity that passes freely in international exchange in the settlement of balances.

I think these observations are so self-evident that this committee's time need not be engaged by further discussion of them. What is more arguable is whether world gold stocks are sufficient to serve the trade needs of the world today. We read a great deal about international liquidity and are assured that there is plenty of money to support the volume of international trade, that in fact there may be an excess of liquidity. This question of liquidity differs, however, from that of the adequacy of gold. In the 10 years between 1952 and 1962, according to the compilations of the International Monetary Fund, world trade, in the form of exports, measured in U.S. dollars, increased from \$74 billion to \$124 billion, or some 70 percent. Now the imbalance in this trade must be settled in cash, and the only acceptable cash in international trade is gold. If due bills are taken instead, these due bills must be payable eventually in gold. Gold is the only universally acceptable medium of settlements.

Economists differ, of course, as to how much gold is required for these final settlements. If all trade between all countries exactly balanced in value, obviously very little gold would be needed. Likewise, strong countries, countries that usually earn substantial credit balances, may find their due bills acceptable in lieu of gold.

A few figures will illustrate. During the 10-year period, when world trade was increasing 70 percent, gold reserves of the free world's monetary systems increased from \$35.8 billion to \$41.4 billion, or 16 percent. That this amount was not only relatively but actually insufficient is shown by the increasing use of what I have called due bills, or what is shown in the statistics as foreign exchange holdings of the central banks. These increased from \$15.6 billion to \$22 billion-plus, or some 45 percent.

Meantime, despite the nominal return to gold convertibility by the principal countries of Europe, a growing uneasiness exists throughout the world over the soundness of these due bills which are being used as a substitute for gold. This is because the principal due bills are those of the United States and Great Britain. One may reduce the question to the value of U.S. due bills, for the pound sterling has shown considerable instability in recent years, and owes its acceptability to two factors—the worldwide network of British banking, and the U.S. credit which has since 1914 steadily been at British service.

Let us look at the dollar which is above all the key currency of the world. Since 1949, the United States has been running a deficit in its balance of over-sea payments. Since 1949, the cumulative deficit is of the order of \$25 billion. Foreigners have used more than \$8 billion to buy U.S.-held gold, and the balance is held in callable funds—mainly bank deposits in U.S. banks and holdings of U.S. short-term Treasury notes. The total of these liquid items in the hands of foreigners is presently around \$25.3 billion against a gold stock of less than \$16 billion.

In recent years the central banks of Europe have been tending to build up their reserves of gold and to display a preference for due bills payable in their own currencies rather than dollars. Last year the Treasury was compelled to issue obligations payable in such currencies as Swiss francs, German marks, and Italian lire, and the present amount of these obligations exceeds \$600 million. It is notable that not during the darkest days of the Civil War was the United States compelled to borrow in any currency but dollars.

With the growing unacceptability of dollars as settlers of international trade balances the question of the adequacy of gold grows more urgent. This is evident from the rash of activity in devising and promoting various schemes to bolster the principal world currencies and to keep them acceptable—particularly the dollar. Among these devices are the swap arrangements of the Federal Reserve, the international gold pool, the Maudling, the Triffin, and the Bernstein plans, to name a few.

SUFFICIENCY OF GOLD STOCKS

Those who dispute this view, who are complacent as to the sufficiency of the world gold stock, point to the steadily rising world gold output, principally due to bonanza workings in South Africa. World gold production, including estimated Russian production, has increased from 34.3 million ounces in 1952 (\$1.2 billion) to 47.7 million ounces in 1961 and 49.5 million ounces in 1962. The 10-year total of 408.8 million ounces includes estimated Russian production of 102½ million ounces, some part of which regularly comes into the world markets. Taking free world production alone, amounting to approximately 306.3 million ounces during the 10-year period, we note that less than half, some \$5 billion, or 142 million ounces, found its way to the central banks of the free world.

What has happened to the balance is of significance. During 1962, free world production was approximately 37 million ounces. Including Russian sales, we may compute the total coming into the world market at 43 million ounces, or roundly \$1½ billion. But of this amount of gold, only \$325 million lodged in the central banks and international institutions; the balance of around \$1.2 billion passed into private hands.

This is significant first of the distrust in which all the world's currencies are held, including the dollar, and the fact is all the more striking in view of the restrictions everywhere on private trade in gold. The two most powerful countries of the world, the United States and Great Britain, severely restrict the private possession of gold by their citizens and subjects. India, where until recently the only completely free gold market existed, has now closed that market. Thus, despite the official prohibitions and the restrictions on trading in gold, throughout the world, those who can are buying and holding gold. Gold coins available on the London market were quoted in 1962 at premiums ranging up to 30 percent for the gold eagle, 21 percent for the British sovereign, 34¼ percent for the French napoleon, and 101 percent for the German 20-mark gold piece.

THE DECAY OF MONEY

So far, I have discussed gold supplies only in relation to demands for international trade. How much gold is required properly to support the internal trade of the world is a more difficult question for two reasons. The first is the existence of official prohibitions on the private holding of gold in many countries of the world, particularly the two most powerful sovereignties—the United States and Great Britain. Of all the peoples in the world, the U.S. citizen enjoys the least freedom in regard to this metal. He can neither buy nor hold gold, either at home or abroad, except as limited components of jewelry, or unless he is a fabricator of gold licensed by and under the closest scrutiny of the United States. Where police states exist, governments can compel their subjects to use as money any mediast which the government decrees as legal tender. That is the case in this land of the brave and the supposedly free.

How much gold would be needed to support trade if the official prohibitions were removed and free trade in gold existed everywhere is therefore problematical. We may guess and surmise, but we will never know until a free market is established. Herein lies the difficulty of revaluing gold by some administrative or legislative fiat, and herein lies a defect in the proposal before your committee, to set a maximum of \$105 an ounce. Only a free market can test whether that or any other price is equitable.

The second reason is the prevalent view of a major school of monetary theorists that gold has no function to perform in internal settlements, and a country's gold stock should be held exclusively to meet foreign claims. Since this group is in control of monetary policy in this country, no answer as to the amount of gold needed for domestic transactions, short of zero, would be accepted by officialdom.

Despite these difficulties, however, two factual indications are at hand to indicate that the gold stock is inadequate both for oversea and domestic use.

The first is the steady disappearance of newly-mined gold into private hands, which I have already mentioned. The rate of disappearance has been increasing in recent years. If the paper currencies of the world were adequate to meet the needs of people, why is there such eagerness to acquire and hold gold? The second fact, which partially answers this question, is the steady expansion of currencies throughout the world, with a steadily declining gold reserve ratio. Now, if no gold is needed to support these currencies, as the theorists maintain,

why do their principal organs continue to publish the reserve ratio and the gold holdings of the central banks?

It is not possible to give a statistical index of the amount of inflation—that is, currency expansion that has taken place in the decade, because of the difficulty of reducing the variety of the world's currencies to a common denominator. Let us take a few countries, using the International Monetary Fund index based on 1953 as 100.

For the United States money supply had increased approximately 15 percent at the middle of 1962. In Canada, the increase was around 60 percent; France, 155 percent; Germany, 145 percent; United Kingdom, 10 percent; Italy, 130 percent; Switzerland, 90 percent; Denmark, 65 percent. These are some of the better countries, monetarily speaking. Of the lesser countries, percentages become astronomical. We may note an increase of 30 times for Bolivia; 10 times for Chile; 8 times for Brazil.

The First National City Bank annually surveys the shrinkage in the value of money. Its July economic letter tabulates the shrinkage during 1962 and for the decade. Using 1952 as a base, it finds that the annual depreciation for the 10-year period 1952-62 ranged from 0.6 percent for Ceylon to as high as 35.2 percent for Bolivia, and for the United States an annual rate of depreciation of 1.3 percent. To quote the letter: "Yet even our 10-year average rate of shrinkage, if projected over the length of the latest long-term U.S. Treasury bond issue, will reduce by one-third the real value of the bonds by final maturity in 1994. People take this into account in wanting interest rates around 4 percent on U.S. bonds and over 5 percent on real estate mortgages."

MEANS TO REDRESS BALANCE

What can be done to bring gold supply and money supply into better relationship? One time honored method is that of writing down the value of the currency—that is, by revaluing the gold in terms of the country's currency. This is done periodically by the weaker nations. It has been done on several occasions this century by Great Britain—in 1939, in 1945, and again in 1949. The United States adopted this expedient once, in 1934, when the price of gold was raised from \$20.67 an ounce to \$35 an ounce. The difficulty with this process, and the reason it is objected to by conservative economists, is that it is an act of bankruptcy, repudiation, and default in the first instance, and in the second, it only lays the foundation for a new inflationary spiral, so long as the system and principle of fractional reserves remain in vogue and in practice. This theory says that it is fine and all right to issue more currency than the gold held, so long as your credit is good, that is, so long as you can continue to pay out gold on demand. The theory breaks down when you have some trouble, an international or domestic crisis, and then you run out of gold, and you declare insolvency by suspending redemption, and by defaulting. That is what this country did in 1934.

That is the reason I have long advocated 100 percent reserve money—the only reliable money, and the only kind of money appropriate to the greatest power on earth, the money which every other country uses as the same as gold. If we can afford a \$110 billion foreign aid bill to help the rest of the world, we are rich and able enough to accumulate enough gold to put our currency on a firm gold basis.

This would take a lot of gold, that is true. In the current inflated state of the dollar, there is not enough gold in the world to take out the water in the U.S. money system. I see no solution except another revaluation of gold, but I agree with all conservative economists in opposing such revaluation unless accompanied by a total reform in our currency system and theory. I do not agree with the economists associated with the Economists' National Committee on Monetary Policy that we can successfully return to the gold standard and convertibility at the present figure of \$35 an ounce.

PROPER PRICE FOR GOLD

If gold is revalued, what is the proper price? Some say one price, some say another. The only final answer is to be found in the marketplace, and I have long urged that the free market for gold should be restored in this country as a first step in reform.

The stock official answer to this proposition is that a free market would create a dual price for gold—the market rate and the Treasury rate of \$35 an ounce. The rebuttal to this is that a dual price already exists, but not in this

country. It is a black-market rate in most countries due to the official exchange restrictions. My nephew, an Air Force officer, told me recently that in France his American Express travelers checks were accepted only at a substantial discount—10 percent I believe. I have not been able to verify whether this was an isolated instance or is general. We know, of course, that the French have for several years been reluctant to take any more dollars.

The Treasury, in its insistence that all is well, is steadily selling off its most precious asset at a discount, at a bargain price to foreign central banks. For several years over protests which I lodged in public hearings, it was selling off its silver at bargain prices, until finally it began to run out of silver, and was brought to stop the practice.

INTERIM MEASURES

We now come to interim measures, which these bills seek to provide. The idea here is to meet the gold shortage by stimulating U.S. gold production, if not world production. The idea has merit, for it is reasonable that domestic noncurrency needs should be met from domestic sources. This is not the case. For some years, domestic takings of gold, under strict Treasury license for industrial and commercial use, have been running much in excess of domestic production. Partly this is because domestic production has been steadily declining, as a result of the low price for gold in relation to production costs; partly this difference represents buying for investment—though this is difficult to document. I think there is some merit in confining this demand to the domestic mine supply. Two reasons may be offered.

First, the strictly technical uses of gold are such that the cost of the raw material is not a significant factor in the price of the finished article, such that a substantial rise in the price of gold would diminish demand. Second, in the case of gold for artistry and adornment, the uses are such that the same principle would apply. Furthermore, there is reason to believe that some portion of the demand represents investment buying in a favorable market—that is, a form of hoarding—though I do not like this opprobrious word for a perfectly legitimate objective. Purchasers for this purpose should properly pay a free market price for gold.

PROPOSED MODIFICATIONS

Pending restoration of dollar convertibility, a limited free market for gold should be established, leading to a completely free market. Such a free market for gold can be established by the legislation before you, providing it is appropriately modified.

The bill before you requires the Secretary of the Interior to determine the price necessary to bring maximum domestic production of gold, not exceeding \$105 an ounce. Domestic gold production is currently around 1½ million ounces annually, compared with a maximum of 6 million ounces in 1940.

While the bill will, if administered according to its intent, achieve a substantial increase in prices paid to producers, I suggest that the same objective can be achieved by a procedure that would remove any element of administrative discretion, and maintain the principle of the free market.

This could be done by limiting gold sales to fabricators to domestically produced supplies, and basing the price to be paid miners upon the prices fabricators were willing to pay under a competitive market condition. This would be in accord with traditional American tariff policy objectives of reserving domestic markets to domestic suppliers.

Under this procedure the proposed Gold Procurement and Sales Agency would be limited to brokerage functions and the price to be paid miners would be the weighted average price at which gold is sold to the domestic market, plus a nominal brokerage charge. Gold could be offered to licensed fabricators and other buyers by sealed tender, much as the Treasury credit obligations are offered, to the extent of available domestically mined gold. Available supplies would be allocated in accordance with bids received. Buyers of gold should be free to reoffer the gold acquired on such terms as the market permitted, though if this seemed more market freedom than the monetary authorities could stomach, gold sales might be limited to licensed brokers who in turn would be permitted to resell to fabricators at a fixed brokerage fee.

Based upon the tenders received and executed, the proposed Agency would then set a price which it would pay for domestically mined gold.

While this procedure would not necessarily reflect a world price for gold since it would be a closed, circumscribed market, yet it would accomplish two major objectives:

(a) It would tend to compensate the miner more fully in accordance with his costs of production; and

(b) It would tend to stimulate gold mining in this country so as to bring supplies into harmony with domestic demand.

Mr. GROSECLOSE. I will pass over my qualifications to discuss this legislation, except to point out that my experience over nearly 40 years with the gold question has been largely practical, dealing with that in its practical aspects, although I am the author of a book and several other works on the field in monetary economics.

From the questions that have appeared as I listened to the hearings yesterday and this morning, I thought I would direct my remarks to three or four questions that seem to be of concern to the committee:

First, as to the adequacy of world supplies of gold; second, as to the adequacy of the statutory price for gold; third, as to the question as to whether this proposed legislation which would serve to increase the price of gold to the domestic miner would be deleterious to the national interest or to any commercial interest of our country.

Before I go on with that statement, however, may I ask the official reporter to correct a statement on—in my statement where I refer to Dr. John Parke Young as having introduced the method of gold purchases in China. It was Dr. Arthur Young, a distinguished brother of a distinguished brother. This appears on page 4 of the statement.

My convictions, arising out of my experience, are that money that is backed by commercial or public debt can never command the universal acceptance of money backed by gold. The best evidence of this is that despite all the theories regarding the ratio, all governments hold gold in their monetary systems; they seek to maintain, if not increase, their reserves of gold; and they include in their foreign exchange reserves only those currencies that are gold convertible. Gold is the only commodity that passes freely in international exchange in the settlement of balances.

I think these observations are so self-evident that this committee's time need not be engaged by further discussion of them. What is more arguable is whether world gold stocks are sufficient to serve the trade needs of the world today.

In the 10 years before 1952 and 1962, according to the compilations of the International Monetary Fund, world trade, in the form of exports, measured in U.S. dollars, increased from \$74 billion to \$124 billion, or some 70 percent. Now the imbalance in this trade must be settled in cash, and the only acceptable cash in international trade is gold. If due bills are taken instead, these due bills must be payable eventually in gold. Gold is the only universally acceptable medium of settlements.

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percent. That this amount was not only relatively but actually insufficient is shown by the increasing use of what I have called due bills, or what is shown in the statistics as foreign exchange holdings of the central banks. These increased from \$15.6 billion to \$22 billion plus, or some 45 percent.

Meantime, despite the nominal return to gold convertibility by the principal countries of Europe, a growing uneasiness exists throughout the world over the soundness of these due bills which are being used as a substitute for gold.

This is because the principal due bills are those of the United States and Great Britain. One may reduce the question to the value of U.S. due bills, for the pound sterling has shown considerable instability in recent years, and owes its acceptability to two factors—the worldwide network of British banking, and the U.S. credit which has since 1917 steadily been at British service.

Let us look at the dollar which is above all the key currency of the world. Since 1949, the United States has been running a deficit in its balance of oversea payments. Since 1949, the cumulative deficit is of the order of \$25 billion. Foreigners have used more than \$8 billion to buy U.S.-held gold, and the balance is held in callable funds—mainly bank deposits in U.S. banks and holdings of U.S. short-term Treasury notes. The total of these liquid items in the hands of foreigners is presently around \$25.3 billion against a gold stock of less than \$16 billion.

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SUFFICIENCY OF GOLD STOCKS

Those who dispute the view that gold supplies are inadequate point to the steadily rising world gold output, principally due to bonanza workings in South Africa.

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What has happened to the balance is of significance. During 1962, free world production was approximately 37 million ounces. Including Russian sales, we may compute the total coming into the world market at 43 million ounces, or roundly \$1½ billion. But of this amount of gold, only \$325 million lodged in the central banks and international institutions; the balance of around \$1.2 billion passed into private hands.

This is significant first of the distrust in which all the world's currencies are held, including the dollar, and the fact is all the more striking in view of the restrictions everywhere on private trade in gold.

Thus, despite the official prohibitions and the restrictions on trading in gold throughout the world, those who can are buying and holding gold. Gold coins available on the London market were quoted in 1962 at premiums ranging up to 30 percent for the gold eagle; 21 percent for the British sovereign; 34¾ percent for the French Napoleon; and 101 percent for the German 20-mark gold piece.

At this point, I might interpolate by commenting upon some of the discussion yesterday regarding the actual free market price and to point out that Under Secretary Roosa, last year, in his testimony before this committee, conceded that the open market price for gold has gone to as high as \$70 an ounce. His testimony appears on page 183 of the hearings on S.J. Res. 44, in which he was questioned and he stated:

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 for gold.

So far, I have discussed gold supplies only in relation to demands for international trade. And again, I might comment upon the testimony of the administration witnesses that any action such as is contemplated in this legislation would upset the international boat and harm the stability of the dollar. It is evident that the main purpose of our foreign economic policy is to maintain the stability of foreign currencies. Since the dollar represents a substantial amount of the reserves of various foreign currencies, any change in the value of the dollar by reducing its gold value would naturally reduce the amount of those reserves. There is a great concern regarding what this might do to these foreign friends of ours.

I would like to quote at this point a statement made by the Comptroller of the Currency back in 1919, which appears in the annual report of the Secretary of the Treasury for that year, page 900, in which he says:

The responsibility is not and never will be upon this country of maintaining the parity of gold in paper money of any European or other foreign country. That is a duty and responsibility which each country must assume and itself and its success in doing so will be dependent upon the stability of each government, upon the industry and thrift of its population, and upon the adequacy and fairness of their systems of taxation.

As you know, under our foreign aid program, we have devoted enormous sums of money to balancing the budgets and maintaining the economy of foreign countries and stabilizing their currencies, which represents a substantial departure in public policy from that stated in the 1919 report.

How much gold would be needed to support trade if the official prohibitions were removed and free trade in gold existed everywhere is therefore problematical. We may guess and surmise, but we will never know until a free market is established. Herein lies the difficulty of revaluing gold by some administrative or legislative fiat, and herein lies a defect in the proposal before your committee, to set a maximum of \$105 an ounce. Only a free market can test whether that or any other price is equitable.

Despite these difficulties, however, two factual indications are at hand to indicate that the gold stock is inadequate both for oversea and for domestic use.

The first is the steady disappearance of newly mined gold into private hands, which I have already mentioned. The rate of disappearance has been increasing in recent years. If the paper currencies of the world were adequate to meet the needs of people, why is there such eagerness to acquire and hold gold? The second fact, which partially answers this question, is the steady expansion of currencies throughout the world, with a steadily declining gold reserve ratio. Now, if no gold is needed to support these currencies, as the theorists maintain, why do their principal organs continue to publish the reserve ratio.

It is not possible to give a statistical index of the amount of inflation—that is, currency expansion that has taken place in the decade, because of the difficulty of reducing the variety of the world's currencies to a common denominator. Let us take a few countries, using the International Monetary Fund Index based in 1953 as 100.

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second, it only lays the foundation for a new inflationary spiral, so long as the system and principle of fractional reserves remain in vogue and in practice.

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This would take a lot of gold, that is true. In the current inflated state of the dollar, there is not enough gold in the world to take out the water in the U.S. money system. I see no solution except another revaluation of gold, but I agree with all conservative economists in opposing such revaluation unless accompanied by a total reform in our currency system and theory. I do not agree with the economists associated with the Economists' National Committee on Monetary Policy that we can successfully return to the gold standard and convertibility at the present figure of \$35 an ounce.

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The Treasury, in its insistence that all is well, is steadily selling off its most precious asset at a discount, at a bargain price to foreign central banks. For several years over protests which I lodged in public hearings, it was selling off its silver, at bargain prices, until finally it began to run out of silver, and was brought to stop the practice.

We now come to interim measures, which these bills seek to provide. The idea here is to meet the gold shortage by stimulating U.S. gold production, if not world production. The idea has merit, for it is reasonable that domestic noncurrency needs should be met from domestic sources.

This is not the case. For some years, domestic takings of gold, under strict Treasury license for industrial and commercial use, have been running much in excess of domestic production. Partly this is because domestic production has been steadily declining, as a result of the low price for gold in relation to production costs; partly this difference represents buying for investment—though this is difficult to document. I think there is some merit in confining this demand to the domestic mine supply. Two reasons may be offered.

First, the strictly technical uses of gold are such that the cost of the raw material is not a significant factor in the price of the finished article, such that a substantial rise in the price of gold would diminish demand, save possibly in certain very limited applications. This is a position that no doubt, the manufacturing jewelers will rebut. I may only point out two considerations: First, in some years, the lobbyists or the silver manufacturing interests have come down and wept before

members of the committee of the Congress of a disaster which a rise in the price of silver would cause those industries. I have not observed that that disaster has fallen. In fact, so far as my limited observation is concerned, it seems that the limited stocks of the silver fabricators have done as well if not better than the stocks of silver mining companies.

The other reason is that a rising price for these precious metals is not harmful to these industries. It makes their products more attractive. People who find that where gold and silver is used in ornament, find that the value of this material in their purchases is steadily rising or has a rising market, find it much more attractive to hold not only as an ornament but as an investment. I don't think that any harm would be done to any manufacturing interest through a rise in the price of both these precious metals.

Pending restoration of dollar convertibility, a limited free market for gold should be established, leading to a completely free market. Such a free market for gold can be established by the legislation before you, providing it is appropriately modified.

The bill before you requires the Secretary of the Interior to determine the price necessary to bring maximum domestic production of gold, not exceeding \$105 an ounce. Domestic gold production is currently around 1½ million ounces annually, compared with a maximum of 6 million ounces in 1940.

While this bill will, if administered according to its intent, achieve a substantial increase in prices paid to producers, I suggest that the same objective can be achieved by a procedure that would remove any element of administrative discretion, and maintain the principle of the free market.

This could be done by limiting gold sales to fabricators to domestically produced supplies, and basing the price to be paid miners upon the prices fabricators were willing to pay under a competitive market condition.

In this connection, the Assistant Secretary of Commerce yesterday testified that he doubted whether this bill would be—would conform to our undertakings under the International Monetary Fund agreement whereby the Government is limited to selling gold at a premium of more than 1 percent over the official price.

What I have proposed would be to limit, to convert this Office of Gold Procurement and Sales to that of simply a buying and selling agency, with brokerage functions only, and that the price to be paid miners would be the weighted average price at which gold is sold to the domestic market, plus a nominal brokerage charge. Gold could be offered to licensed fabricators and other buyers by sealed tender, much as the Treasury credit obligations are offered, to the extent of available domestically mined gold.

Available supplies would be allocated in accordance with bids received. Buyers of gold should be free to reoffer the gold acquired on such terms as the market permitted, though if this seemed more market freedom than the monetary authorities could stomach, gold sales might be limited to licensed brokers who in turn would be permitted to resell to fabricators at a fixed brokerage fee.

Based upon the tenders received and executed, the proposed agency would then set a price which it would pay for domestically mined gold.

While this procedure would not necessarily reflect a world price for gold, since it would be a closed, circumscribed market, yet it would accomplish two major objectives:

(a) It would tend to compensate the miner more fully in accordance with his costs of production; and

(b) It would tend to stimulate gold mining in this country so as to bring supplies into harmony with domestic demand.

Thank you, Mr. Chairman, for the privilege.

Senator GRUENING. Thank you very much, Mr. Groseclose.

Do I understand that you suggest an amendment to the existing legislation that will change somewhat the functions of this procurement agency?

Mr. GROSECLOSE. Yes. I have always found it somewhat difficult to reconcile with my own philosophy this idea of giving any arbitrary discretionary authority to an executive agency when you have a method of determining the free market price.

Senator GRUENING. I think the suggestion has considerable merit and certainly the subcommittee will give it consideration.

Senator BIBLE. Did you give any consideration to where the gold might find its level in the free open market?

Mr. GROSECLOSE. It is extremely difficult, because the last completely free gold market, completely free, that of India, where they allowed gold sales, was closed this spring. Most of the markets that exist are based upon clandestine demand. There is a relatively free gold market in London, which, of course, is held down to the gold point by U.S. Treasury sales of gold. I think the only way to tell, and we hear a great deal of discussion as to what is a proper price for gold, and I think it is all highly theoretical until you have a free market which will give some indication. That is why I have urged that before we turn the problem of setting a price, we decide what is a proper price for gold.

It might be \$105 an ounce. It might be somewhat less, to the disappointment of the gold mining industry.

Senator BIBLE. What is the present situation in Canada? Do they have a two-price system? Or do they pay a subsidy?

Mr. GROSECLOSE. They pay a subsidy to the miners. The mechanics was put into the record last year. It varies from mine to mine in Canada.

Senator BIBLE. As I recall, there was a low subsidy figure. It was not a substantial amount maybe in tax dollars. Or do you know? Would they pay much for subsidy?

Mr. GROSECLOSE. I don't think they do, but I have no data.

Senator BIBLE. But it is in effect a two-price system in Canada, or is it?

Mr. GROSECLOSE. No; it is a subsidy to the miners which compensates them for the difference between the cost of mining and the statutory price, which corresponds to \$35 an ounce, or as modified by the change in the parity of the Canadian dollar. But it is not a free market for gold, as I understand.

Senator BIBLE. Can you sell gold in Canada? Can you mine it and sell it? Can you trade in gold in Canada?

Mr. GROSECLOSE. I am not too familiar with the mechanics of the Canadian gold subsidy system, Senator.

Senator BIBLE. I am not referring particularly to the subsidy system. I have heard it said that the United States is the only country in the free world that prohibits its citizens from owning and trading and dealing in gold as a commodity. I don't know whether that is a completely correct statement or not.

Mr. GROSECLOSE. That would not be correct at the present time. Most countries have restrictions on the use of gold. British subjects cannot trade in gold except in certain limited forms of sterling, which prohibits the average British subject from buying and selling gold. But they can buy it for a foreign account and sell it. They can hold gold abroad, I understand.

Now, in India, they have prohibited the trade in gold. They have closed the Bombay Bullion Exchange as far as gold trading is concerned. But they have not prohibited the individual from owning monetary gold and as far as I know, the British citizen is not prohibited from owning it.

But the American citizen is prohibited not only from owning it at home; he is prohibited from owning it abroad. I don't know how it is enforceable. It is a rather odd provision.

Senator GRUENING. Dr. Groseclose, do you share the Treasury Department's apprehension that if we were to enact this legislation providing a subsidy, it would cause a panic and a raid on the dollar?

Mr. GROSECLOSE. Senator, what is causing the distrust of the dollar is not what is happening before this committee, as important as this committee is. It is what is happening in our loose fiscal policies and our heavy foreign aid expenditures. It is those activities that are causing concern throughout the world. We are spending more abroad on foreign aid and maintaining troops in Europe and other expenditures than we can support with our normal activities of our economy. And also our domestic imbalance of the budget is causing concern, financing this budgetary deficit by resort to borrowing, which is monetized. It is those things which are causing concern regarding the dollar and not some relief that is being proposed to the gold miner.

I can't see where any relief, as has been pointed out by previous witnesses, in gold mining, even if brought up to 6 million ounces a year, it would not be a great drain on the Treasury when you see what the administration is proposing to give one country alone, India, during the coming year. It would more than meet all the cost of any subsidy. And those of you who have read the front page of Barron's of this week are aware that things are not well in India and that a great deal of our foreign aid there is undoubtedly being wasted.

Senator GRUENING. I trust the Congress will take some other measures to strengthen the dollar along the lines you suggested, where the treatment will help.

Senator Bible?

Senator BIBLE. I have no further questions; thank you.

Senator GRUENING. Thank you very much.

The next witness is Mr. Charles F. Oddy, secretary-treasurer of the Optical Manufacturers Association, accompanied by Walter J. Keely, counsel.

STATEMENT OF CHARLES F. ODDY, SECRETARY-TREASURER OF
THE OPTICAL MANUFACTURERS ASSOCIATION

Senator GRUENING. Mr. Oddy, we are happy to have you here.

Mr. ODDY. Thank you, Mr. Chairman. I appreciate this opportunity to appear before your committee.

My name is Charles F. Oddy, O-d-d-y.

I am secretary-treasurer of the Optical Manufacturers Association, a trade association whose members produce in excess of 90 percent of the dollar volume of all gold-filled spectacle frames manufactured in this country.

As one of this country's key industries from the standpoint of national security, public health, and research, we feel compelled to express our strenuous opposition to S. 1273.

Our first impression is that since gold is not only a monetary metal but an important commodity to a number of domestic industries, including the ophthalmic frame industry, therefore a substantial increase in the price of the metal would be disastrous to these industries as well as dangerous from the monetary standpoint.

The ophthalmic frame industry has become a fashion industry beset by keen competition between domestic manufacturers as well as from an ever-increasing number of imports. At the present time, approximately 25 percent of all frames sold in this country are imported. With very few exceptions these imported frames are of plastic materials.

Foreign manufacturers have not been in a position to effectively compete with domestically manufactured gold-filled frames and combination of gold-filled and anodized aluminum and/or plastic materials. If domestic manufacturers were forced to discontinue the use of gold-filled materials because of a substantial increase in the cost of gold that would make it impossible to compete with less expensive materials (which would inevitably follow enactment of this bill), we estimate that the imports of plastic spectacle frames would increase to a minimum of 40 percent. This would be damaging to one of this country's key industries and the resultant unemployment and reduced use of gold would be detrimental to the overall economy.

As an example, we estimate an increase in the price of gold from \$35 an ounce to \$105 an ounce would result in an increase in the price of a gold-filled spectacle frame to the ultimate consumer of 50 percent. In a highly competitive industry this percentage differential would create impossible problems for the domestic manufacturers of gold-filled spectacle frames.

The above would apply if domestic manufacturers are forced to buy all of their gold through the proposed Gold Procurement and Sales Agency that would be established in the Department of the Interior.

On the other hand, if domestic suppliers of gold-filled materials would be permitted to buy gold from the world market at prices below the price established by the Gold Procurement and Sales Agency, the natural effect of S. 1273 would be to force these domestic suppliers to look to foreign sources of supply, thereby reducing the consumption of domestically mined gold.

No matter how you look at the proposed legislation, the end result would be a subsidy for the mining interests. We naturally must ask if this subsidy is necessary since all reports would indicate that the industry has realized a handsome profit at the present \$35 per ounce rate.

This subsidy would amount to many millions of dollars for the large mining interests that cannot be justified in our opinion. In any event, if what is intended by this bill is to subsidize the mining industry, then we contend that the bill should honestly say so, and no attempt should be made to penalize the ophthalmic manufacturers and other domestic users of gold.

That concludes my statement, Mr. Chairman.

Senator GRUENING. Mr. Oddy, I am interested in your statement in the last paragraph, page 2, in which you say:

All reports would indicate that the industry has realized a handsome profit at the present \$35 per ounce rate.

On what do you base that?

Mr. ODDY. Sir, a witness to follow me has more details on that. It is my understanding that it would result in a sizable increase in profit for the large mining interests. The actual figures I am not prepared to give to you at this time.

Senator GRUENING. Well, you have made a great discovery. No one else has appreciated this fact, which you allege as a fact, that the industry has realized a handsome profit at the present \$35 price. The mines are closing. Most of them have closed, the dredges are suspending their operations. Only a few mines are left that are operating in this country which mine gold exclusively. If they are making a handsome profit, according to your statement, how do you explain that?

Mr. ODDY. Well, sir, as I say, a witness to follow me has more details in answer to that question.

Senator GRUENING. Well, I would suggest that you do a little research and amend your statement. You would not want a statement coming from you as an official member of this Optical Manufacturers Association to be so completely at variance with what appear to be the facts, would you?

Mr. ODDY. Well, I believe the facts can be presented, sir.

Senator GRUENING. Well, it would be helpful if you would have a little research done by your organization.

Let me ask you this: Why is it not possible for American manufacturers to make plastic eyeglass frames?

Mr. ODDY. We are. We are making plastic eyeglass frames in large quantities. However, the imported eyeglass frames have style and coloring that so far the domestic manufacturers have not been able to meet. Plus the fact that being a fashion item, the ladies in particular, if you stamp "Made in France" in the frame, it seems to be a selling point.

Senator GRUENING. Can't you develop sufficient ingenuity to compete with these foreign manufacturers? After all, plastics were largely originated in this country by the Du Pont people, by American industry to begin with?

Mr. ODDY. That is true. We are doing much in the fashion field, to the best of our ability. But there are many things that enter into it. Pricewise, we cannot compete with the foreign manufacturers. They are all working at labor rates that are a third or a quarter of our rates.

Our higher standards in this country make it very difficult for us to compete. Plus the majority of the importers are selling direct to the retailers. They are bypassing the normal channels of distribution in this country.

Senator GRUENING. Then you sympathize with your industry in that you can't compete with the foreign manufacturers?

Mr. ODDY. But if we have to give up the use of gold fill, which is a material that has not been imported to any great extent—

Senator GRUENING. Then couldn't you sympathize with another industry which has not been able to make both ends meet because of the low prices it is obligated to adhere to? I am referring to the gold-mining industry.

Mr. ODDY. We naturally sympathize with any industry.

Senator GRUENING. It is an interesting thing that we feel sympathy depending on whose ox is gored, is it not?

I have a plastic eyeglass frame. What is wrong with that?

Mr. ODDY. There is nothing wrong with it, depending on individual needs. There are many people who can't wear that type of frame. It won't stay on their nose.

Senator GRUENING. What is the superiority of gold-filled frames over plastics? They cost more, do they not?

Mr. ODDY. It costs more, makes a very attractive frame. You can make up many combinations of gold fill and plastic, gold fill and anodized aluminum. In a combination frame, you have adjustable nose pads which you can't get in a plastic frame. You have a set bridge, and it either fits your nose or it doesn't. With adjustable nose pads, the dispenser can make the frame fit the patient properly, so it will stay in place on the face.

Senator GRUENING. How about aluminum frames?

Mr. ODDY. Anodized aluminum is being used to a fair extent, mainly for decorative purposes and for temples. Very little of it is being used for what we call the front, the main part of the frame, because it does not hold its adjustment as well as the gold filled.

Senator GRUENING. Is the use of gold in eyeglass frames a kind of status symbol? It is a fashion thing?

Mr. ODDY. It is a part of that, yes, sir. It is a quality material.

Senator GRUENING. Well, would you be kind enough to go back to your research department and see whether upon further investigation, you find that—you say "all reports"—"all reports" would indicate that the industry has realized a handsome profit at the present \$35-per-ounce rate? Remember, not a few reports, but you said all reports. Do you suppose you could find a single report to justify that statement?

Mr. ODDY. I don't think there is any doubt that some of the smaller—

Senator GRUENING. I would appreciate that, because this would be very valuable information to have before the subcommittee. It would indicate that every other witness before us this year and in past years was gravely mistaken and it would indicate that the gold mining industry is prospering and does not need any of this legislation.

Thank you very much, Mr. Oddy.

Mr. ODDY. Thank you, Mr. Chairman.

Senator GRUENING. The next witness is Mr. William P. Conklin, president of the J. M. Ney Co., of Hartford, Conn., representing the Dental Gold Institute.

Mr. Conklin, we are very happy to have you here. Please sit down and proceed with your statement.

STATEMENT OF WILLIAM P. CONKLIN, PRESIDENT OF THE J. M. NEY CO., REPRESENTING THE DENTAL GOLD INSTITUTE

Mr. CONKLIN. I want to thank you first of all, Mr. Chairman, for the privilege of appearing before your committee.

Mr. name is William P. Conklin, president of the J. M. Ney Co., manufacturers of gold alloys for dentistry and in continuous operation since 1812.

That is, our company has been.

At these hearings, I represent the Dental Gold Institute, an association of manufacturers specializing in supplying gold alloys to the dental profession, and accounting for approximately three-fourths of the national volume. We are opposed to legislation that would result in an arbitrary increase in the price of gold and a possible decrease in its availability to the industry.

My apologies for not having enough copies of this to distribute to everyone. I didn't realize the scope.

Senator GRUENING. It turns out to be all right, because I am the only member of the committee present.

Mr. CONKLIN. Gold is the basic raw material of the dental gold manufacturing industry, which comprises in the order of 50 manufacturing establishments throughout the United States, employing in the neighborhood of 1,000 persons.

Almost without exception these are small businesses, with the average employment being very much less than 100. The total value of the product turned out by this industry is approximately \$25 million annually.

The product is furnished in the form of complex alloys of gold fabricated into sheet, wire, and tiny casting ingots all of which are, in turn, fabricated by the dentist (often with the auxiliary help of a commercial dental laboratory) into dental restorations such as inlays, fixed and removable bridges, appliances for restoring injured mouths, and appliances for straightening children's teeth.

Gold alloys are the material of choice by the dental profession for three principal reasons:

(1) Long-wearing characteristics in the mouth, compatible to tooth enamel (being neither too hard nor too soft, nor brittle nor subject to disintegration).

(2) High strength with flexibility, as contrasted to similar strength but harmful rigidity of nonprecious metals offered for use in the mouth. This flexible strength is a metallurgical characteristic of all of the gold-containing alloys, and its value to the dental patient is of vital importance in those cases where natural teeth are being used as abutments or retaining members.

(3) The precision fit of gold inlays and other case gold appliances used in the mouth. This precision-fit characteristic helps prevent further damage to the mouth through possible recurrent decay or un-

desired movement of abutment teeth which may in turn lead to further mouth disease such as pyorrhea.

In summary, the thoughtful dentist chooses gold alloys in preference to lower-priced, nonprecious alloys because of their demonstrated superiority in restoring and preserving the dental health of his patients. Despite this generally understood superiority, there are competitive nonprecious alloys which are aggressively merchandised for many of the same applications as the dental gold alloys and which get acceptance very largely because of a substantial price differential. This typical gold alloy will be priced at from four to eight times that of the nonprecious alloy.

The cost of the basic gold content of these dental alloys (many of which also contain varying quantities of platinum, palladium, silver, copper, etc.) is a high percentage of the selling price, with a maximum of perhaps 86 percent and an average in the neighborhood of 70 percent. I am referring to the raw material costs.

In the "normal" manufacturing operation, raw material cost is a very much lower percentage—as you know—with the scale being from 30 percent downward.

In 1934, when the dollar was devalued by our Government with a resultant increase in the basic price of gold from \$20.67 per ounce to \$35 per ounce, the effect on the dental gold manufacturing industry was traumatic. This 60-percent increase in our basic raw material necessitated a corresponding increase in the price of the finished product which was beyond the willingness and capability of the dental professional market to absorb. What happened was that the units of dental gold sold—following the price increase—dropped to less than half the previous volume. In an effort to meet the situation, dental gold manufacturers developed, as rapidly as possible, substitute alloys containing a minimum amount of gold, but with increased percentages of platinum metals to try to maintain the noble metal characteristics of the alloy. These materials enjoyed some temporary acceptance because of their price, but they disappeared from the market almost entirely within a few years, which reflects the fact that their performance characteristics were not as good as the high gold content alloys that they sought to replace.

If, for reasons not related to the working of the natural laws of supply and demand, the base price of gold were arbitrarily increased there is no question but that it would have a damaging effect on this industry, on the dental profession that it serves and on the dental health of the people of this country. In addition to the 1,000 or so persons directly employed in the manufacturing and distribution of dental gold alloys, there are several thousand commercial dental laboratories throughout the country which process gold restorations for the dental profession.

I would say here the number of commercial dental laboratories is about 8,000. And as you probably know, sir, the known profession numbers about 100,000, of which 80,000 are in private practice and the rest in government service and in other types—teaching, and so forth.

Some of these specialize entirely in the use of gold to the exclusion of competitive base metal alloys. The number of gold technicians employed by these laboratories would certainly number in the thousands.

The gold alloys produced by the dental gold manufacturing industry are also sold to the armed services and to the Veterans' Administration. The value of these purchases is in the neighborhood of \$1 million annually, and they are made on a bid basis with the Government buying directly from the manufacturer. These sales to the Government are accomplished at a very small margin over cost—with gold content alone representing about 90 percent in this case of the bid price. It is obvious that any increase in the base price of gold as a raw material would have to be reflected in full on these Government bids and purchases.

In summary, gold is a critical material essential to maintaining the dental health of the people at its highest level. While there are substitutes, they remain just that. They cannot equal or replace the inherent qualities and advantages of the gold alloys. Any action that would result in an artificial valuation of gold would unquestionably place gold restorations beyond the means of dental patients who can now afford them. The drop in demand would have a direct and unfavorable effect on the earnings and livelihood of the several thousands of persons who are engaged in the primary production of dental gold alloys and their secondary fabrication into dental restorations. This is not hypothetical as is shown by the experience of the industry in 1934.

While it is not directly within the province of this memorandum to discuss the monetary aspect of gold and its relationship to the U.S. dollar, it is obvious that stability in the price of gold is to be desired above everything else because of its far-reaching effect into the lives of all U.S. citizens. And I might add because the U.S. dollar is the prime currency in the world today.

This position we would affirm irrespective of the obvious interest in and dependence of our industry on gold as its basic and indispensable raw material.

Senator GRUENING. Thank you very much, Mr. Conklin. Let me ask you a question or two.

As you pointed out, after the price of gold was raised in 1934 to \$35 an ounce, there was a diminution in demand for gold for dental purposes, was there not?

Mr. CONKLIN. The units sold dropped about one-half.

Senator GRUENING. And there was a period when various substitutes were tried, but were not proved to be so successful. Then gradually, was not the use of gold resumed?

Mr. CONKLIN. Yes.

Senator GRUENING. Has it caught up with the supply that was sold in 1934?

Mr. CONKLIN. The units must be back nearly to where they were in 1934.

Senator GRUENING. You say nearly. Aren't they wholly?

Mr. CONKLIN. It is difficult to say, because the character of dentistry being done today is so entirely different from what it was in 1934. The number of fixed bridges, for instance, being made today is far greater by many, many times than they were in 1934. Yet the removable partial denture, and here we are getting into areas beyond my competence, because I am not a dentist, I am not a professional man; but our sales of materials that went into the removable

partial denture are less today than they were in 1934 because of the change in the art. But overall, measured in dollar volume, as I said, the annual volume of the product turned out by the industry today is about \$25 million and this is greater than it was in 1934. I can't give you the 1934 figure, sir.

Senator GRUENING. Well, there has been a very substantial increase in the population and one would assume, consequently, in the number of dental patients who are receiving treatment that requires gold inlays or gold fillings?

Mr. CONKLIN. Correct; and the number of dentists has increased about 50 percent in that time, sir.

Senator GRUENING. It would be very helpful if you could supply some definite statistics as to the amount of gold that is actually being used today for dental purposes as contrasted with what was used prior to 1934, in 1933, and show us what the figures have been in the meantime. It would be of interest.

Mr. CONKLIN. I can give you recent years, but you see, our institute has not been in existence this entire time. Whether it would be possible to go back as far as 1934 to get good figures I am not certain.

Senator GRUENING. You assume that if this legislation were enacted, the increased cost from \$35 to \$105 an ounce would fall upon the dental suppliers?

Mr. CONKLIN. It would, sir, because, as I pointed out, at the present time our selling prices—in our selling prices the cost of the basic gold ranges between 70 and 86 percent. It is a very unusual relationship, with the raw material being such a high percentage of the selling price. Consequently, we would have to pass along, as we did in 1934, the entire impact of an increase in the price of gold. If it went up three times and the alloy contained 70 percent, let us say, of fine gold, we would have to pass along the direct cost increase of that 70-percent content on a typical alloy, selling today for \$40 an ounce. The net effect would be to raise the price to the dentist to \$79 per ounce.

Senator GRUENING. What are the wages, approximately, that you pay these people engaged in preparing these dental alloys?

Mr. CONKLIN. It is quite highly skilled, actually. It is not an automated industry.

Senator GRUENING. Has it increased appreciably since 1934?

Mr. CONKLIN. The employment?

Senator GRUENING. No; the wages you pay.

Mr. CONKLIN. I certainly hope they have. I can't give you, again, the exact comparable wage levels. I know we pride ourselves in our company on paying wages in Hartford which are comparable with those of the entire industry.

Senator GRUENING. Wages have increased all over the country. I am wondering if the wages there have not increased more than the price of gold, including that increase in 1934?

Mr. CONKLIN. Some undoubtedly have.

Senator GRUENING. You have not gone out of business because your wages have increased, have you?

Mr. CONKLIN. No. On the other hand, we have kept, and I think it has been an advantage to the profession that we have kept a very stable price. In other words, we did not take advantage of the increase in the price of gold. At that time, we simply passed on what the actual

cost increase was to us and we have held our prices very, very stable over a long period of time, aided, of course, by the fact that we have had a stable basic commodity to deal with.

It has been an advantage to us. I think it has also been an advantage to the profession that they have not had to deal with fluctuating price.

In the case just before the final establishment of the new gold content of the dollar—was it in 1933 or 1934—in 1934—there was a period there where we did have as a practical matter a secondary gold market in which the price was fluctuating in the range of \$30, \$32, \$33 an ounce and we were changing our prices constantly, almost daily, getting out notices to our dental supply distributors. This was a difficult thing to live with. We did it and it was quite upsetting. When the thing was settled at a fixed figure, it was a great advantage from that standpoint.

So we know what it is to live with a fluctuating monetary price and also a stable price.

Senator GRUENING. Well, since 1934, 29 years ago, all your costs except gold have increased, have they not?

All your costs of operation—wages, raw materials, your rents?

Mr. CONKLIN. Well, let's stay on the precious metals, for example. I am not certain that we were not paying more for platinum in 1934 than we are today, or palladium. I think probably we were paying more for palladium and these are major constituents. I could document this, but I will not agree categorically that everything we are buying is costing more today, sir.

Senator GRUENING. Could you furnish information as to what the change in the wage scale has been in the last 30 years in your industry?

Mr. CONKLIN. Well, I could go back and get it. I don't have it with me, sir.

Senator GRUENING. Well, we will keep the record open for a while. We would appreciate it if you would supply that. I think it is pertinent to show that all other ingredients of your industry have gone up and we would like to know how much, as contrasted with the fact that gold has remained stationary. It would bear on our investigations here.

Thank you very much. We appreciate your testimony.

(The information requested is as follows:)

AUGUST 29, 1963.

Mr. GEORGE R. FRANKOVICH,
*Executive Director, Manufacturing Jewelers & Silversmiths of America, Inc.,
Providence, R.I.*

DEAR MR. FRANKOVICH: In response to your letter and to the inquiry of Mr. Stewart French, I have attempted to reply to the questions which Senator Gruening raised in discussing my testimony.

First, as to the amount of gold being used today for dental purposes as contrasted with the amount used in the period just before and just after the increase in price of gold in 1934. As I considered the best way of doing this, it seemed to me that a table would give the information most quickly and clearly. Accordingly, I have prepared such a table showing, for various years both before and after the change in price, estimates of the industry sales of dental gold alloys and corresponding estimates of the fine gold used to turn out that dollar volume. In terms of gold consumption it shows that the 1931 level was not regained until 1950 and that the 1929 consumption of gold for dentistry was not surpassed until the current year.

On the question as to the wages paid in the industry in 1934 as compared to today, I should first make it clear that the dental gold manufacturing industry is so small that it does not have any industry wage pattern such as you might find in coal or steel or automobile manufacturing. As pointed out in

my testimony, it is a small business, and wages paid are related to area wages in Hartford or New York or Chicago or Los Angeles (wherever the plant is located) rather than to any national scale.

In general the skills required by the industry would fall somewhere in the top-grade machinist category and this skill requirement has remained quite constant over the years. Today we are paying around \$2.50 an hour for this skill and this is unquestionably higher than we were paying 30 years ago, and probably follows quite closely the change in the Bureau of Labor Statistics Wage Index for this period.

While labor costs may well have doubled in this period, the prices of our products have gone up less than 20 percent between 1935 and 1963. This reflects, among other things, our continuing effort to make our production methods more efficient and to reduce our unit cost of manufacture.

As to the transcript of the testimony which you asked me to review and correct, I have made some very minor changes designed to clarify the sense slightly.

Thank you for following through and conveying this information to Mr. French.

Yours sincerely,

WILLIAM P. CONKLIN, *President.*

	Industry sales of dental gold alloys (estimated)	Industry consumption of fine gold (estimated)			Industry sales of dental gold alloys (estimated)	Industry consumption of fine gold (estimated)	
		Ounces	Cost per ounce			Ounces	Cost per ounce
1929.....	\$13,000,000	450,000	\$20.67	1944.....	\$13,000,000	260,000	\$35.00
1931.....	9,000,000	300,000	20.67	1950.....	15,000,000	300,000	35.00
1934.....	7,000,000	140,000	35.00	1955.....	18,000,000	360,000	35.00
1939.....	8,000,000	160,000	35.00	1963.....	25,000,000	500,000	35.00

Senator GRUENING. The last witness today is Mr. Robert M. Krementz, of Krementz & Co., of Newark, N.J., first vice president of Manufacturing Jewelers & Silversmiths of America.

STATEMENT OF ROBERT M. KREMENTZ, FIRST VICE PRESIDENT, MANUFACTURING JEWELERS & SILVERSMITHS OF AMERICA, INC.

Mr. KREMENTZ. Mr. Chairman, I appreciate the opportunity to appear before you today.

My name is Robert M. Krementz. I represent the jewelry industry at these hearings. I am first vice president of the Manufacturing Jewelers & Silversmiths of America, Inc., most of whose 500 manufacturing members use gold in some form. I am also vice president of Krementz & Co., of Newark, N.J., a jewelry manufacturing plant whose principal raw material is gold.

The jewelry industry is one of the principal users of gold throughout the world. In this country the precious jewelry segment of the industry employs about 20,000 persons in about 800 companies. Although some use platinum and silver, the vast majority of their product is made of gold. Companies which specialize in school and college class rings and jewelry alone employ some 6,000 persons and probably constitute, as a group, the largest gold users in the world.

Additionally, there are several thousands wholesalers and about 25,000 retailers who consider gold an important part of their business. They are generally highly regarded, small merchants in their communities.

My principal objective in appearing today is to talk with you about gold as an important raw material of our industry. I find it impossible, however, to avoid discussing other aspects of the gold situation, not only as a member of a gold-using industry, but as a taxpayer and a citizen.

We strongly disagree with those who would tamper with the price of gold, either as S. 1273 would do, by price manipulation of domestic gold; or as Senate Joint Resolution 44 and other bills would do, by outright subsidy, or with the supply of gold as S. 100 would do.

Our reasons for objecting on one hand are selfish: we don't want our products priced out of the market, and we want a ready supply of raw material. On the other hand, we believe bills of this type are neither economically justifiable nor are they in the public interest. The main reason for the latter two of our objections are based on the fact that they attempt to treat gold as just another commodity and nothing more. It is not just another commodity, and attempts to treat it as such could be economically devastating to the Nation and to the mining industry they seek to preserve.

Let me first make clear that as businessmen, we will not deny any other business a fair market price for their product. What is a fair market price for gold? This question needs exploration.

If gold would suddenly become only a commodity, how would the price be set? Obviously, in a free world market by the inexorable laws of supply and demand. Where would this leave the price of gold today? World gold production reached a record high of 47.7 million ounces in 1961 valued at \$1.7 billion. The Union of South Africa nearly doubled production in the past decade, and at the \$35 price I might add. U.S.S.R., the second greatest gold producer, added significantly to its production also.

Figures of world consumption in arts and industry are unknown, but these facts are known:

(1) The world has added tremendously to its gold monetary reserves over the decades. Production has far outstripped consumption of gold in arts and industry.

(2) These facts apply equally to the United States, even though we are the world's largest consumer of gold as a commodity and produce only 4 percent of the world's supply. During the years since 1934, the last reevaluation of gold, our production has been \$2.4 billion of gold; our net consumption \$1.6 billion; an excess of production over consumption over these years of \$781 million.

It is obvious that, if gold had been only a commodity operating under a free world supply and demand market, the price would never have reached \$35 and would have been far below today.

In 1934, on a pure commodity basis, while our business was indeed in sore straits, and the price of many commodities at a very low ebb, the price of our raw material was raised 69 percent. On the basis of gold as a commodity, this was totally unjustified; it hurt our sales badly. However, we realized then as we do now that gold has a far more important status than as a raw material for our industry. The miners were indeed fortunate in those unfortunate thirties that it occupied this other status. They are fortunate today that it occupies this other status which permits it to defy normal supply and demand laws.

In the 1930's, industrial consumption ranged from minus \$62 million (when we were living off reclaimed gold) to \$7 million. During the same period, production in this country barged along at \$96 to \$170 million and the excess of production over consumption was bought by the Government at the pegged price of \$35 an ounce. Some manufacturers I know would consider such a situation heavenly.

Now the cry is to help the miners by increasing the price or by subsidy. Let's look at subsidy for a moment, in the light of Senate Joint Resolution 44. (A \$35-an-ounce subsidy on each ounce of domestically mined gold.) Let's take Homestake Mining Co., for example: the Bureau of Mines reports that they produced more than one-third of all domestically mined gold in 1961. This would amount to 516,000 ounces. Although this company reported a before-tax profit of \$6½ million that year, they would have gained an additional \$18 million subsidy windfall that year alone. Had S. 1273 been operating and the price of \$105 an ounce been effective, as it would have to be in order to achieve maximum production, the taxpayers' donation to Homestake would be \$36 million, in addition to their normal profit.

The Commerce Department spokesman highlighted the nature of the corporations who would be the beneficiaries of a Government-induced price increase or subsidy when he said:

In lode gold production in 1958, one mine comprised 75 percent of production and in placer gold, three mines comprised 97 percent.

These few large corporations would obviously receive the lion's share of any such largesse.

It must be borne in mind, however, that one-half of the gold mined is a byproduct in the mining of copper and silver. The production of gold in these mines would therefore be dictated almost entirely by the supply and demand factors for other metals and not by the subsidy granted for gold.

If, then, gold is more than another commodity, if it deserves a price which is unjustified on a commodity basis, what other effects would price tinkering or subsidy have?

I profess no profound knowledge of international monetary affairs. I have some opinions, shared by many in the industry, and well supported by the testimony of the top monetary experts of our Government.

First, let us consider the effect of S. 1273 on our gold reserves. I understand it is intended to improve them by increasing the domestic mining of gold. If anything above the \$35 price resulted, and we feel by definition of "maximum production" in the bill, the price must be the top specified limit of \$105 an ounce, our industry would be the top specified limit of \$105 an ounce, our industry would naturally buy gold in foreign countries, for which we would pay U.S. dollars. These then foreign-held dollars would, of course, be redeemable in U.S. gold. How would our balance of payments improve? In fact, foreign gold at times costs slightly more delivered to this country than domestic gold; if what our Secretary of the Treasury says of this type of bill is true, gold costs abroad will probably increase. We might well be giving foreigners redeemable notes of \$36, \$37, or \$38 an ounce for each ounce imported, which they could redeem at our Treasury for \$35 gold. The net would be a balance-of-payments loss.

Some say an increase in gold production, induced by subsidy, is important in helping to correct our balance-of-payments gold loss; a problem that deeply concerns us all. As pointed out above, we do not hold this to be true, but even if it were, consider what a representative of the Treasury has to say:

Recently, in commenting on one of the proposed subsidy bills, the Department of the Interior indicated that a 100-percent subsidy would about double today's gold production. Yet if such a subsidy were given and we doubled our gold production, it would take this increase well over 100 years to replace the decrease in gold stocks (due to balance of payments) in the past 5 years.

S. 100 would stop Treasury's sales of gold to domestic industry. Apparently, the reasoning behind this provision is to prevent further sale of \$35-gold to domestic industry until successful efforts can be made to increase the price of gold. Perhaps it is also believed that this will also retain gold in our Treasury for balance-of-payments reasons.

If our presumption is correct, I'm afraid the reasoning behind this provision is invalid. If the gold-using industry cannot buy gold from the Treasury, it will increase its foreign purchases of gold to satisfy its needs. The balance-of-payments effect will be the same as stated previously with regard to artificially high-priced domestic gold. While we hold our metal on one hand, we increase foreign drafts against it on the other; probably losing somewhat in net holdings on each transaction.

While we have no particular objection to any study being made by any agency of the Government into the present status of the gold mining industry, we do feel that the provisions in S. 100, to prohibit until September 1964, the sale of gold by the Treasury Department or any other agency, would certainly cause any foreign holders of certificates against our gold, to read the obvious gold reevaluation which such an action would connote.

If an effort were made to limit our importation of foreign gold, there would be another result—complete and utter devastation of our industry. If we were denied gold at a world price, our exports would die overnight—a balance-of-payments loss; imports would quickly take over—a balance-of-payments loss; tens of thousands of employees would suffer economic and psychological displacement from their jobs. This, of course, would be unthinkable in its inequity.

The export of gold bears mentioning at this point. During yesterday's hearing, there was some implication that exporting gold products was bad for the United States. The jewelry industry which I represent, is probably the biggest private exporter of gold products. My company, Krementz & Co., enjoys its share of the export market of such products. The Treasury representative testified that practically all of our exports of gold were of fabricated gold—that is, rings, pins, jewelry, such as I make for export. We buy gold as a raw material in sheet, wire, and tubing form. We pay \$36 to \$40 per ounce for gold, depending upon the form in which we buy it. By the time we have processed the gold into a ring or a pin for export, we add labor cost, depreciation, overhead, selling expense, and profit. A \$35 per fine ounce of gold may sell abroad for several hundred dollars by the time we are finished with it.

Gentlemen and Mr. Chairman, if we could export every ounce of gold we have at Fort Knox with this markup, our balance-of-payments problem would be solved for generations.

We have attempted to discover the reason the American gold mining industry is no longer competitive. When we read of constant improvement of world production, when we read of West Driefontein Gold Mining Co.'s, the world's largest gold producer, having a 1961 working profit of \$38.4 million, and read of increased yields in many places in the world, we can only conclude that we are rapidly working out the ore in our scattered mines. If this be true, no amount of encouragement by subsidy, in whatever form, will remedy the situation.

As a citizen and taxpayer, it appears to me that we have stretched the goodwill of the dollar virtually to the limit during the past few years. The consequences of a run on our gold reserves, and, as we all know, we already have a \$6 billion deficit of notes and other commitments in foreign hands redeemable in gold, are too disastrous to this Nation to contemplate. This must not happen. In measuring the effect of gold subsidy plans against this consequence, I can only take the word of Under Secretary of the Treasury Roosa, speaking for Secretary Dillon, who said in commenting on Senate Joint Resolution 44:

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.

Can really the effect of a domestic subsidy have such international ramifications? Frankly, sir, I don't know, but I am sure that having two prices for gold is like monkeying with a buzz saw.

Over the centuries, gold has been the major medium for international trade. Besides being the only yellow metal that will not corrode or otherwise deteriorate, it is suitable for cold working, hot forging, or casting. It is relatively easy to refine and, when alloyed, becomes very strong and durable. Therefore, it has great intrinsic value as a monetary medium of exchange. A value so important to world commerce that it is worthy of a special price stability, legislatively imposed where necessary, without direct relationship to the usual supply and demand laws of commodity economics.

I wonder how the holders of dollars would react to the dollar being valued lower in terms of gold as far as domestic sales were concerned as compared to international sales? Would that not cause a prudent foreign holder of dollars to convert to gold in anticipation of the foreshadowed change in value for international purposes? If \$35 is worth 1 ounce of gold in international trade, why should it be worth less in domestic trade?

Our Government and all the governments of the free world cannot take such a grave risk. We must remember that the monetary units of other countries do not have the status of the dollar and must be ever mindful of our responsibility for maintaining a fixed relationship between our currency and gold.

Sir, there cannot, there must not be a second price for gold in the United States.

Senator GRUENING. Thank you very much, Mr. Krementz, for your very excellent statement. I have one or two questions I would like to ask you.

At the bottom of page 5, you say:

If an effort were made to limit our importation of foreign gold, there would be another result—complete and utter devastation of our industry. If we were denied gold at a world price, our exports would die overnight—a balance-of-payments loss; imports would quickly take over—a balance-of-payments loss; tens of thousands of employees would suffer economic and psychological displacement from their jobs. This, of course, would be unthinkable in its inequity.

Do you think displacement of men in their jobs is unthinkable in its inequity?

Mr. KREMENTZ. That number of people, I think.

Senator GRUENING. Well, it has happened in the gold mining industry. I wonder if you think that is an unthinkable inequity.

Mr. KREMENTZ. I do, sir, perfectly frankly. But there is a ramification to this bill, I think, that goes beyond whether a subsidy as such in the price of the material is the correct way to overcome this problem. There are subsidies in other countries. South Africa has some subsidies and I have here a reprint of an article in the Times of London that talks about subsidy to those mines that are working close to the margin of profitability. It says:

This assistance will take the form of money grants to marginal mines on the center and nearest Witwatersraand to meet the cost of pumping out water coming from neighboring abandoned mines. Money so received must be used solely to cover operational costs, not capital outlay, and grants will be subject to the approval of the government mining engineer.

The government believed that a more appropriate method of subsidizing the marginal mines would have been to pay more than the world price for gold, but it abandoned the idea because of the opposition from the mining concerns and from the International Monetary Fund.

They apparently take this subsidy on a mine-to-mine basis, sir. This is why I referred to the Homestake mining interests. If this were an overall subsidy of price, it would help in an unbalanced way those mines that are having difficulty.

Senator GRUENING. Well, we realize that there are complexities connected with this. I merely wish perhaps to point out that psychological and economic displacement is unfortunate if it happens.

That is why we are trying to see if we can remedy without doing much damage to the industries using gold. We think it can be found. We think the industries are particularly fortunate in not only having the domestic supply for their materials that kept the price established 29 years ago, but that they pay the same price for the imported gold. That is a unique bonanza.

I take it your other costs have all gone up as have other costs in other industries—your labor costs, your rents, and all the other factors have increased substantially through the years.

Mr. KREMENTZ. The jewelry industry, sir, has been in a rather unique position as far as labor costs are concerned. I am not talking wage rates; I am talking of labor costs. We have had to develop in the industry many new techniques so that this increased labor cost would not put us out of competition with other items in our categories.

And perhaps, although it might seem that wage rates have gone up three times, the total labor cost has gone up not nearly that much because of these new techniques and labor-saving methods in producing jewelry.

Senator GRUENING. Has that resulted in any technological employment?

Mr. KREMENTZ. No, sir; I don't believe so. Years ago jewelry used to be handcrafted to a great degree, hand soldered and filed, stones handset and hand polished. As those older artisans passed on or retired, the technological impact was lessened.

Senator GRUENING. Well, thank you very much, Mr. Krementz. We are very happy to have you here and we appreciate your very excellent statement.

This is the last witness of the day and we stand in recess until 10 o'clock tomorrow.

(Whereupon, at 12:20 p.m., the committee recessed, to resume Wednesday, July 17, 1963, at 10 a.m.)

The first part of the book is devoted to a general history of the world, from the beginning of time to the present day. It is written in a simple and straightforward style, and is intended for the use of students in schools and colleges. The second part of the book is devoted to a history of the British Empire, from the reign of Queen Elizabeth I to the present day. It is written in a more detailed and scholarly style, and is intended for the use of students in universities and other institutions of higher learning.

DOMESTIC GOLD PRODUCTION

WEDNESDAY, JULY 17, 1963

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 recess, at 10:05 a.m., in room 3110, New Senate Office Building, Senator Ernest Gruening presiding.

Present: Senators Ernest Gruening and Peter H. Dominick.

Senator GRUENING. The meeting will please come to order.

We have a number of telegrams supporting this legislation—one from Governor Egan; one from W. P. McLean, of California; and one from Louis D. Gordon; also a letter from W. G. Maloney, of the Mining Association of Montana. They support the legislation which we are considering and will be made a part of the record at this point.

(The documents referred to follow:)

JUNEAU, ALASKA, *July 16, 1963.*

HON. ERNEST GRUENING,
U.S. Senate,
New Senate Office Building, Washington, D.C.:

Re your hearings on condition of gold mining industry S. 1273 is better approach than S. 100. While calling for similar study it also creates agency for handling domestic market. No industry can operate profitably today and provide jobs on prewar prices for its product. Many unmined gold deposits remain in Alaska and elsewhere but production and employment depend on a price increase. Gold mining employment in Alaska has dropped from over 4,000 men to less than 500. Federal and State Governments are supporting relief programs in depressed areas resulting from this decline. Federal expenditures for assistance of gold industry would provide jobs, rebuild industry, and improve our gold reserve position. S. 1273 would increase employment in outlying depressed areas and could nearly eliminate need for present relief programs. I strongly recommend favorable action on this or similar legislation.

WILLIAM A. EGAN, *Governor of Alaska.*

COULTERVILLE, CALIF., *July 16, 1963.*

STEWART FRENCH,
Chief Counsel, Senate Interior Committee,
Washington, D.C.:

Gold the only commodity the price of which cannot legally follow the law of supply and demand. It can be produced in quantity with a realistic stable price. Gold mining will approximately triple employment in areas where present employment is predominantly tax paid employment.

W. B. McLEAN.

NEVADA MINING ASSOCIATION, INC.,
Reno, Nev., July 15, 1963.

HON. ALAN BIBLE,
U.S. Senator from Nevada,
Senate Office Building, Washington, D.C.

HON. HOWARD W. CANNON,
U.S. Senator from Nevada,
Senate Office Building, Washington, D.C.

HON. ERNEST GRUENING,
Chairman, Senate Subcommittee on Minerals, Materials, and Fuels,
Senate Office Building, Washington, D.C.:

Nevada Mining Association, Inc., approves of and endorses Senate bills 100 and 1273 with reference to gold.

LOUIS D. GORDON, *Executive Secretary.*

MINING ASSOCIATION OF MONTANA,
Butte, Mont., July 11, 1963.

MR. STEWART FRENCH,
Chief Counsel, Senate Committee on Interior and Insular Affairs, Senate Office
Building, Washington, D.C.

DEAR STEW: Thanks for your notification of the July 15, 16, and 17 gold hearings by the Minerals Subcommittee. I would like to be there and add my voice to others from the mining industry endorsing higher prices, incentive payments, etc. on gold. However, circumstances make it impossible for me to attend these hearings. I sincerely hope something is done to help the gold miner, not only to keep him from obliteration, but if present conditions keep up in the gold mining industry, there just won't be any.

Sincerely,

W. G. MALONEY.

Senator GRUENING. The first witness today is the Honorable John M. Kelly, Assistant Secretary of the Interior.

Mr. Kelly, we are very glad to have you here. We are counting on the Department of the Interior to lift us from this depressed and discriminated state in which gold seems to have been pushed by other departments of the administration.

Will you proceed in whatever way you think best?

STATEMENT OF HON. JOHN M. KELLY, ASSISTANT SECRETARY OF THE INTERIOR

MR. KELLY. Thank you, Mr. Chairman. I have a prepared statement and with your permission, I would like to read it and I will be willing to answer, if I can, and if I am able, any questions you have.

Senator GRUENING. I wish you would.

MR. KELLY. I have several of my staff here, both of my own staff and of the Bureau of Mines. They are available for questioning.

MR. Chairman, it is a pleasure to accept your invitation to report on the provisions of the two bills, S. 100 and S. 1273, under consideration by the committee.

Before commenting on these bills, I should like to review briefly the salient facts concerning domestic mining and consumption of gold. I realize that much of what I will say is largely known to this committee, but I will proceed on the theory that "true knowledge is the product of review."

In 1905 mine production in the United States for the first time exceeded 4 million ounces. During World War I, production declined

rapidly, falling to nearly 2 million ounces by 1920. Production again increased, and in 1937 passed the 4 million ounce mark once more.

Aided by gold derived as a byproduct from the defense stimulated mining of base metals, the old mining industry produced an alltime high of 4,869,949 ounces in 1940.

During World War II, War Production Board Limitation Order L-208, which closed down all nonessential mines, made direct mining for gold almost impossible. L-208 was rescinded in 1945, and in 1947 gold production rose to 2 million ounces.

However, since 1950 gold production has steadily declined. The average yearly mine production for the 5-year period 1958-62 was 1.6 million ounces. In 1961, the latest year for which complete data are available, the sources of that production were as follows: 48 percent from gold ores, 13 percent from placers, and 39 percent as a by-product from base metal ores.

The United States produces approximately 3 percent of the world's gold. At this level, we rank with a number of small producers whose combined total accounts for 15 percent of the world total. The balance comes from the chief producing countries: the Republic of South Africa with 52 percent, U.S.S.R. with an estimated 25 percent, and Canada with 8 percent.

Although production has declined, gold consumption in the United States for artistic and industrial uses has shown a steady increase. Average net consumption of gold in the arts and industries of the United States in the 5-year period 1958-62 was about 2.7 million ounces which exceeded mine production during the same period by 1.1 million ounces. Thus, new production supplied only 60 percent of industrial demand. In 1962, domestic consumption of gold exceeded production by 2.1 million ounces; production supplying 41 percent of demand. In fact, except for 1946 when demand generated by wartime conditions reached a peak of 4,391,000 ounces, the year 1962 marked an alltime high for domestic consumption—more than 3½ million ounces (3,576,000).

Unfortunately, we do not know what particular categories contributed to this increase. However, and this, I believe, Mr. Chairman, was at your suggestion, we have set up an arrangement with the Office of Gold and Silver Operations, Treasury Department, whereby that Office has agreed to canvass refiners and fabricators of gold and furnish data on the end uses to the Bureau of Mines. The procurement of these end-use data, previously lacking, will enable the Bureau to follow trends in the consumption of gold for industrial- and defense-related uses in relation to its uses in the arts, and to assess future requirements more accurately.

Now, with reference to S. 100 and S. 1273, the Department of the Interior has to recognize that gold is unique—that it cannot be considered as a commodity divorced from its monetary implications. The U.S. dollar, because of our monetary policy, has become a standard against which the currencies of the world are measured. The fixed-price relationship between the dollar and gold is much more important in our monetary system than is the supply of gold as a commodity for industrial use.

The Department of the Interior defers to the Department of the Treasury on monetary policy. Our competence with regard to gold

extends only as far as its role as a mineral commodity is concerned, and, even in this role we must view it from the fixed-price relationship.

However, Mr. Chairman, we would like you to know that the Department of the Interior takes a positive stand in its role approaching the problems of the gold industry, especially the commodity role. We have, as I will try to point out in my statement, we show that we have taken steps to get at the heart of the problem and within the competence, our own competence, to try to suggest relief.

Gold is also unique among mineral commodities in that its domestic price is fixed and stable. Now within these criteria—that the domestic fixed-price relationship of gold is unchanging and that the Department of the Interior is solely concerned with gold as a mineral commodity—I can turn to the specific points of the two bills under consideration.

As to S. 100 the essential points are these:

First, that the Secretary of the Interior make a survey of the domestic gold mining industry in order to develop information upon which Congress may adopt remedial action in order to relieve the distressed condition that exists in that industry. Second, that section 21, title 30 be amended to prohibit sale by any governmental agency of any material primarily valuable because of its gold content to any person within the United States for artistic, commercial, or industrial uses. Third, the study referred to above shall include the President's recommendations as to the best means available to relieve distressed conditions in the domestic mining industry.

The proposed study would duplicate in part programs of the Department already completed or in progress—the cataloging of gold properties by the Geological Survey and an economic study of gold resources by the Bureau of Mines now underway. It would also, in our opinion, detail data beyond the point where the return would justify the cost.

The measure calls specifically for an inventory by States of active and inactive gold mines. This would be feasible if limited to significant producers. The Geological Survey and the Bureau of Mines maintain such an inventory as a part of their regular activity.

I believe we do carry, Mr. Chairman, a running list of the active mines and those inactive mines that were significant producers in the past. As I stated, we maintain such an inventory as a part of our regular activity.

However, the information is so voluminous that it has not been compiled in a form that can be published. It has been our judgment that to organize and publish these data would require more time, effort, and funds than the industrial importance of gold would warrant.

The measure also calls for an estimate by States of the time and cost of reactivating and placing in operating condition inactive mines, and an estimate by States of the quantity of unmined gold remaining in the ground at both active and inactive mines. These two are operationally related in that they would have to be done simultaneously. Here again we feel that the cost would not be justified by the results.

Our reason, of course, is that an estimate of reserves at all mines is not feasible because records and maps of most small mines were either not made or are not available to the Government. A usable estimate would require the reopening of many of these mines for geologic study.

Also an estimate of reserves would call, I think, for an extensive core drilling and diamond drilling operation. Such a program could entail many years' work and probably the expense would exceed the value of the gold that could be recovered. To do this within the time limit required by the bill would also require an extensive diversion of personnel from programs now in progress with the inevitable waste that accompanies delays and reorientations.

The bill would require that an estimate be made of the potential for the discovery of new deposits of gold and the prospect for the mining thereof. There are current estimates of gold reserves that are minable under present costs and the price of gold. We think we should not in a report to the Congress speculate regarding some other price for gold. Reserves, of course, increase from day to day with the increase in our total geologic knowledge and with newer technologies.

Another part of the proposed study would be a comparison by States of the number of persons employed at gold mines during each 10-year period for the past 100 years. Obtaining employment figures for the past 100 years poses many difficulties; reliable statistics do not go back that far. We can, however, furnish data on that period of domestic gold production history which are significant for interpreting this industry's role in the domestic economy. It should be pointed out that figures on gold production are difficult to reconcile where the metal is produced primarily as a byproduct of a complex orebody. For example, in 1962 one western mineral operating company produced more than 360,000 fine ounces of gold as a byproduct of copper operations. It becomes difficult to segregate manpower, costs, and reserves on such an operation.

Even if we eliminate byproduct production we run into the silver problem. Our statistics group the gold and gold and silver mines into one category. In 1962, our preliminary figures show that there were 376 gold and gold and silver mines and 285 placer mines. These operations employed a total of 4,313 persons. This one particular part of our statistics, Mr. Chairman, I think can be broken down if it would be of value to the industry and to the committee.

The second bill, S. 1273, is, as I see it, an attempt to treat gold as an ordinary industrial mineral commodity insofar as domestic mining and industrial use are concerned, while still preserving the integrity of gold in our monetary system. The bill attempts to do this in two ways:

First, the bill grants to the Secretary of the Interior the power to fix a price for domestically mined gold destined for industrial use. This price shall not exceed \$105 per troy ounce. This fixed price is to be determined by a survey that would show at what price level maximum production from domestic mines would be achieved.

Second, S. 1273 would establish a Gold Procurement and Sales Agency in the Department of the Interior with exclusive power to buy gold from domestic producers and sell it for nonmilitary purposes.

An increase in the price of gold of the magnitude here suggested would undoubtedly provide an incentive for reopening some mines which cannot now operate profitably. It would also provide substantial increases in revenue to the presently producing mines and for producers of gold as a byproduct in the mining of base metals, which as I have stated, constitute about 40 percent of our present gold production.

In addition, we must also be mindful of the consumer whose competitive position both with respect to other domestic products and foreign products of gold could be seriously impaired by a sharp rise in the cost of gold.

However, both the proposals of S. 1273—to fix a higher price for domestically mined gold and to set up an agency to buy and sell domestically mined gold at this higher price—would establish a double standard for the price of gold. 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 now in effect.

While the Department cannot concur in legislation that has as its objective the establishment of a price different from the fixed price of \$35, the Department is attempting to encourage and stimulate gold mining in other ways.

As I have stated previously, the Department has taken a positive stand on this, Mr. Chairman, and reviewed in my area, both with the Geological Survey and the Bureau of Mines, is to encourage these agencies—

Senator GRUENING. Secretary Kelly, may I interrupt at that point?

Mr. KELLY. Yes, sir.

Senator GRUENING. You indicate that you have taken positive action by giving this publication. Isn't that a good deal like giving a starving man a bill of fare and allowing him to read it at great length? How is it actually helping gold mining?

Mr. KELLY. I think the publication that the Geological Survey is preparing, one entitled "Principal Gold Producing Districts of the United States (including Alaska)," has quite a bit of geological information in it that would be of quite a bit of help to the industry and to the miners in interpreting the formation, both placer and lode formations and to allow them to perhaps plan a better mining program to reduce their costs through more efficient mining.

Senator GRUENING. Do you think that at the present price, mining can continue, gold mining can continue, that is, gold mining as separate from mining of gold associated with other minerals?

Mr. KELLY. At the present price, Senator, I think we will continue to see a decrease in mining.

Senator GRUENING. That is the real problem, of course, and that is the problem to which I was hoping this study, these hearings would lead to provide a solution.

Now, the Department of the Interior apparently goes right along with the Treasury Department, although its functions are quite different. There have been plenty of instances in the history of our country in which departments having different functions differed in their conclusions. Now, the function of the Interior Department is not to discuss the monetary aspects of gold, but to see what can be done with gold as a commodity, what can be done in relation to mining it profitably, and for its industrial uses. And apparently, this issue is completely evaded in the reports of the Department of the Interior and your testimony. You go right along with the Treasury Department, which has the view that some of us, at least, do not share, although we can understand perfectly well how it could have this point of view and from its standpoint it is sound.

What we are trying to find out is how the Department of the Interior, which has jurisdiction over mining and geological operations

can help us. You have presented a bill, S. 1807, which has been referred to the Committee on Finance, which may be of some help—I hope it will be. Senator Byrd has promised an early hearing on it and I believe he is sympathetic. But still that only goes on a very small way and we were hoping—I was hoping and I think members of the subcommittee were hoping—that there would be ingenuity enough in the administration in the executive branch to find some way in which gold mining could be given the kind of encouragement that it is entitled to because of the unique restrictions that are placed upon it, restrictions entirely unique in our free enterprise society and which has a number of analogies, at least, such as in the field of agriculture.

I am disappointed, I will confess, quite frankly. S. 1807 for tax relief is not before the committee but has been referred to the Finance Committee. It is proposed legislation which is sponsored by a number of Senators besides myself and Senator Bartlett—Mr. Humphrey, Mr. Allott, Mr. Moss, Mr. Bible, Mr. Mundt, Mr. Simpson, Mr. Engle, Mr. Long of Missouri, Mr. McGovern—may be of some help. It may go some way toward giving the miners some tax relief in exploration, but basically the price of the commodity remains fixed at what it was 29 years ago and that is the great problem we have to solve if gold mining is not to become extinct in the United States.

I just wonder whether giving the miners more information will really have an appreciably beneficial effect.

They are up against the basic problem that the cost of everything in gold mining operation has gone up while the price of gold remains fixed. Now, within a very short time we will have no independent producing gold mines. You agree with that. Yet in all the rest of the world, gold is prized, is being produced, and the production being subsidized in some countries. It makes us wonder why the United States, alone of all countries, which prides itself on its ingenuity and its ability to be first in everything, has to be left behind. That is the basic issue we are trying to solve here today and I am still hopeful the Department of the Interior will come up with something more constructive than it has so far.

Did you want to make any comments?

Senator DOMINICK. No, Mr. Chairman; I thought you handled the field beautifully.

Senator GRUENING. Thank you very much.

Proceed.

Mr. KELLY. I believe I ended up with making mention of the Geological Survey's publication now in preparation.

For fiscal year 1964, the Bureau of Mines has launched a study of the economic gold resources of the United States. The effort will be directed toward compiling all the data available in the State offices regarding the quantity and grade of ore produced, the cost of mining and ore treatment, and the relationship of these costs to the possible production at each mine. I must emphasize that this project is one of compilation only and does not involve the type and scope of activity required to deliver the data directed by S. 100. However, on the basis of the information the Bureau of Mines compiles, we should be able to make more meaningful estimates regarding reserves, potential production, and perhaps relate to the gold mining industry the advantages of improved technology, automation, and the availability of skilled manpower.

These two studies constitute a basic contribution to the understanding of the problem before this committee. When the reports are completed, we will be happy to make them available to committee members. Of course, when the reports are completed, we will be happy to make them available to the committee along with the industry.

Since July 1961, gold has been eligible for exploration assistance under the program of the Office of Minerals Exploration. That Office has received 76 applications for gold exploration estimated to cost \$6,167,668. Sixteen contracts have been approved for gold exploration at an estimated cost of \$984,680.

Mr. Chairman, this concludes my prepared statement. We are sure that you know that we stand willing and able to assist the committee in its splendid endeavor to improve the ability of the gold mining industry in its efforts to meet the increased industrial and monetary demands placed upon it.

Thank you, Mr. Chairman.

Senator GRUENING. Thank you very much, Mr. Kelly. I have no further questions.

Mr. Dominick?

Senator DOMINICK. Thank you, Mr. Chairman.

Mr. Secretary, I am sorry I was unable to be here to hear the first portion of your testimony, but I have scanned it briefly. It is my understanding, with respect to S. 100, that your objections to the study largely involve the question of time and cost; is that correct?

Mr. KELLY. And manpower.

Senator DOMINICK. And manpower. I would say here that I have no objections to making any amendments to this bill which might be helpful to bring it within reason so far as the studies are concerned. But as I am sure you know, one of the main points in the bill is the prohibition against sales by the U.S. Government for industrial purposes of gold. Now, I didn't see, in the quick scanning I did, whether you in the Bureau of Mines have taken any particular position on this or whether you simply say this is a Treasury problem and leave it up to them.

Mr. KELLY. This is a Treasury problem. I made a reference to it in my statement, Senator, in respect that it is a part of S. 100, but there were no comments on it, because I felt that the Treasury Department had commented or should comment on this and this is within their jurisdiction.

Senator DOMINICK. I perhaps should have gone into this at more length when the Treasury representatives were here, but we now separate in actual use gold put in money and gold for general industrial purposes. If, in fact, it is impossible to separate them as is advocated by the Treasury, one would normally suppose that people would buy the artifacts for industrial purposes and then melt them down into gold bullion for money purposes. But this has not happened, to the best of my belief. Do you know of any circumstances where this has happened in any large quantity?

Mr. KELLY. No; I don't, Senator, and perhaps one reason for it is that gold is being freely traded at \$35 plus or minus a quarter or so.

Senator DOMINICK. If these prohibitions did go into effect, preventing the Government from selling gold for industrial purposes, it would have the effect, as I see it, of raising the price of gold for those

purposes and to that extent stimulating further production, I would think.

Do you have any correlation in your studies between a stimulant at this time and the amount of increase in production that is obtained?

Mr. KELLY. Senator, I presume that you are also talking about a prohibition of importing gold, too, when you say that?

Senator DOMINICK. I have not been talking about that; no.

Mr. KELLY. Well, wouldn't the first thing that would happen under this be that you would have an increase in imports, because gold could be purchased at \$35, and 10 or 15 cents an ounce at the present time.

Senator DOMINICK. It is possible. The question of the availability of gold for those purposes would then become very pertinent, would it not?

Mr. KELLY. That is perfectly possible. There is a difference between about 1 million and 1,100,000 ounces, I think, as high this last year as up to 2,100,000 ounces between domestic production and domestic consumption of gold, which is now being supplied, I presume, from foreign gold. Or Treasury sales.

Senator DOMINICK. Well, most of it is being done by Treasury sales, and this is part of the problem that we have, as I see it.

Suppose we did put a prohibition against imports, which seems to be very difficult to do on any metals at this point. We seem to be favoring foreign producers over our own regardless of what metal is concerned. But suppose we did do this. Do you have any evidence in the Bureau of Mines study which you have made today that there is sufficient available production in the United States to be able to handle the demand?

Mr. KELLY. I think that I can answer that in perhaps two ways, Senator: One, the short-term effect, and the long-term effect.

We have made some—I have put the question this way to the Bureau: Would an increase in the gold price result in increased production? Is that the question you are presenting to me, also?

Senator DOMINICK. Well, from the short-term effect, we would like to rely on one of the distinguished members of the industry that is present here today, Dr. McLaughlin, and I would like to quote from a paper of his that he presented in 1960 before the AIME. This is a partial quote:

I would not expect that an increase in the price of gold would lead to more than a nominal increase in the country's output. Even that would be rather slow in coming from old mines or districts that would require extensive exploration work and development before the operations could be resumed. Furthermore, the immediate effect might be an actual decrease in output measured in ounces for existing mill capacity would probably be used for lower grade ores. We can, I think, be confident that there would be no flood of gold under such conditions, though, of course, an improvement, even on a modest scale, that we would expect would be very welcome.

This is Dr. McLaughlin talking on short-term effect.

Now, on long-term effect, I had the Bureau do some research and at the end of this research, we felt that we had no reason to change the estimate that we gave when this committee considered Senate Joint Resolution 44. At that time, the Bureau of Mines advised that an incentive price of \$35 an ounce, or doubling the price from \$35 to \$70 an ounce would bring domestic gold production up to 3 to 3½ million

ounces annually within 2 to 3 years, compared with the present rate of 1.7 million ounces. Thus it has been established that a subsidy of \$35 an ounce could result in doubling the domestic production of gold, even at a slightly lower rate than the 1962 estimate.

Mr. KELLY. Increasing the subsidy to \$70 as provided for in S. 1273 would stimulate a demand for gold and bring an increase in production.

So on a long term, yes, I think we could look for at least a doubling of production.

Senator DOMINICK. Your long-term effect is for 1 or 2 years?

Mr. KELLY. After 3 years.

Senator DOMINICK. Now, you report at page 5 of your statement that you have had what amounts to a substantial number of applications for gold exploration and that 16 of the 76 have been approved. Now, are these high class, high grade, I should say, gold deposits or are they byproducts or gold and silver exploration?

Mr. KELLY. No; these are gold. These are not byproduct applications. We have applications into the whole range of mineral commodities, and I would say the copper applications would probably, the byproduct gold, would be limited under, say, applications for a copper mine. These are applications for gold, 76 applications.

Senator DOMINICK. Have you had any personal contact with the people who have made these applications to give you the ability to talk with them, to find out why they are putting in the applications?

Mr. KELLY. No, but Mr. Fumich, the Director of the Office of Mineral Explorations, is here, and either he or an assistant has personally investigated each of these applications.

Senator DOMINICK. My question was designed to find out whether the reason that was expressed for this interest is connected with a possible devaluation of the dollar.

Mr. KELLY. Senator, this is Mr. Fumich. He is Director of the Office of Mineral Exploration, who handled the applications.

STATEMENT OF GEORGE FUMICH, DIRECTOR OF OFFICE OF MINERALS EXPLORATION, DEPARTMENT OF THE INTERIOR

Mr. FUMICH. Sir, to our knowledge, these applications are bona fide on the basis of the present market price and on the idea that that market price is going to continue.

I mean, we don't go into the project with the idea that on our criterion the price of any product is going to increase. In other words, if there is economic feasibility, the project itself; based on all known factors, we go into it ourselves, and that is the same criteria they have to abide by.

Senator DOMINICK. Mr. Fumich, I am sure about that. I was just talking about informal conversations you might have had, and whether this is any part of the motivation.

Mr. FUMICH. Sir, we personally, in the Washington office, haven't had any personal conversations, but our fieldman in San Francisco has. Based on—we had a little seminar here about a month ago, and just talking to him, our indication from his conversation was that they were just optimistic based on the present market price.

I don't say that—I guess all gold miners are optimists.

Senator DOMINICK. All miners are, Mr. Fumich. If they weren't, they wouldn't be miners.

Mr. FUMICH. At least, these people felt they had some good projects and they could make some money out of them today.

Mr. KELLY. 76 projects, Senator, concentrated in five States would be of interest to you—Alaska, Idaho, Montana, California, and Colorado.

Senator DOMINICK. I have a great concern in trying to see how we are going to be able to do anything to stimulate the gold production over the long haul unless we can separate the monetary value of gold from industrial uses. Now, would you care to comment on that, Mr. Kelly?

Mr. KELLY. I think I have commented on it, Senator, in my statement. If it involves setting up a double standard for gold, a double price for gold, a double standard of pricing in gold, one standard for the monetary and one for industrial or commodity use, we, in Interior, defer to the Treasury for their expertise on that. We are, I would say, restricted, in Interior, to doing the physical things that would result in encouraging production; that is, increasing—

Senator DOMINICK. How do you determine that there is a valid discovery for gold if you say there can be only a valid discovery where the deposit is of commercial value?

Mr. KELLY. Well, gold is priced at \$35 an ounce. You have a ready and willing market for gold today.

Senator DOMINICK. The interpretation of commercial value has been that you are able to operate at a profit.

Mr. KELLY. You mean the Bureau of Land Management interprets it?

Senator DOMINICK. Yes. This is part of the problem, as I see it. It seems to me this is just as applicable to gold as it is to uranium, or lead-zinc, or anything else.

That is all, Mr. Chairman.

Senator GRUENING. Secretary Kelly, you are familiar with the position taken by the Treasury Department, which was made very clear in last session's hearings by Under Secretary Roosa, which was that the bill which we had before us, Senate Joint Resolution 44, would provide a subsidy of \$35 an ounce to the miner, to the mining company, which would have no bearing on the price, and there was no purpose to increase the price of gold; it would remain at \$35 an ounce. This \$35 subsidy was simply a bonus to assist in the miner's operations and to compensate him for the arbitrary and artificial restrictions that were laid upon him.

Secretary Roosa took the position that if this legislation were enacted, it would create a panic in the world. There would be a raid on the dollar. None of us on the subcommittee could follow that line of reasoning. Have you any opinion on this subject? If you prefer not to give it officially, I would like to have your personal opinion.

We find it very difficult to follow this line of reasoning. We think that if it was clearly stated in the legislation, by the President, by the Secretary of the Treasury, that this legislation had no purpose to change the price of gold, that there would be no such adverse effect as Under Secretary Roosa forecast and I have corresponded with a number of bankers, abroad and here, and I find quite a few of them who do not share that view.

They see no relation between the two.

Have you anything to say on that?

Mr. KELLY. No, Senator. However, at your request, I did go and talk to Secretary Roosa and, as you pointed out at the last hearing, I believe you said you had other contacts in which some of the international bankers said that they did not feel that Secretary Roosa's fears would take place—that is, there would be a weakening of confidence in the dollar. I talked to Secretary Roosa on that point and he again reiterated that he thought if there was any suggestion of a two-price system, no matter how it was arrived at—

Senator GRUENING. Well, this is not a two-price system. We are not planning to have a two-price. We are simply going to help the nearly defunct gold mining industry by a subsidy.

Mr. KELLY. Well, or a subsidy. He felt that this would be interpreted as a forerunner of the change in the price of gold, devaluation in the price of gold. I myself have no comment to make except to feel that you have heard from the Treasury people and they should comment further on this matter, if you felt their answer to you was not satisfactory.

Senator GRUENING. Well, you feel you cannot state an opinion, except to say that this is what Secretary Roosa said, therefore, we have to go along with it?

Mr. KELLY. That is right.

Senator GRUENING. Thank you.

Senator Mundt, we are happy to see you. I understand you want to present the next witness.

STATEMENT OF HON. KARL E. MUNDT, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

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

First of all, I want to salute the committee you are heading and the members of the committee for your focusing on this longstanding problem. It seems to me the problem of gold and the related problem of our decreasing balance of payments have joined weather in being one of those topics about which everybody talks, but nobody does anything.

I know you are trying to do something about it, and that is encouraging. I wish I could stay and join you in your deliberations, but I am 15 minutes late now in joining John McClellan where we have staked out a mining claim of our own in another committee involving the TFX. So I will have to join you after engaging in a pleasant responsibility here; that is, introducing to the committee a man who needs no introduction to the members here, but to introduce to those who read the record the individual in this country who, if I were going to designate him in the customary Washington language, I would have to call Mr. Gold.

I think he probably knows more about gold than any other single individual in this country. I think he has worked productively with gold more than any other single individual in this country. For more than 20 years, he has been associated with the Homestake Mining Co., which unquestionably is housed in California and whose profits go elsewhere, but who dig the gold out of the Black Hills of South Dakota, where we have the only real commercial mining venture left in the United States, and it is in a serious situation.

We cannot look forward to continuing to operate the only gold mine of any consequence that functions in this country if we continue to compel it to operate at a loss.

Now, it is very obvious, it seems to me, to anybody who has ever opened the covers of an economic book, or anybody who has ever handled a household budget or run a business or a farm that you simply cannot continue to sell a product at a 1933-year price after we have had 30 years of inflationary pressures of increasing the costs of developing or fabricating or producing that product. That is what has happened to gold. It is as simple as that. If we continue to let it happen, the United States is not only going to lose its gold as it is now losing it by the balance-of-payments procedures, but we are going to cease to be a producer of gold entirely and become the victim of the Communist world in order to get a trickle of gold.

Now, this is a stupid and a suicidal policy which has been pursued by Government long enough and I am glad that you are calling it to the attention of the public and the Government, that they are up against a problem which they are creating by Government.

And that means that Government should interest itself in its solution.

Now, I know no one better able to talk about the details of that and to make suggestions, because Donald McLaughlin is not only a hard-rock gold miner, a practical producer, a distinguished businessman, he is an educator and a student and a philosopher and an analyst in his own right, and I wish I could hear him again as I have heard him so often.

But I know that with his counsel and with the fine, courageous, persistent efforts by the chairman of this committee and his colleagues, I hope we can crack the sonic barrier and get the people down in the bureaus either to come up with an answer or resign and let somebody who is capable of coming up with an answer meet this challenging problem, because we are heading for disaster if we close down the production of gold all over this country by deliberate Government policy and in this era of the cold war, make ourselves the victim of an enemy who avows to bury us, I suppose in an abandoned gold mine, in this tricky business of international monetary policy.

I am glad you let me say you are going to hear a wonderful man in Donald McLaughlin.

Senator GRUENING. Senator Mundt, I couldn't agree with you more. Perhaps if this subcommittee should decide to report this bill, S. 1273, despite the panicky fears of the Treasury Department, as we heard before, don't you think that would give us a test as to whether the dollar would be immediately in peril?

Mr. Roosa pointed out that merely holding these hearings was doing the dollar a great disservice. I have not noticed any effect from these hearings. I have noticed the Government is boosting the discount rate but not taking any other steps. I am wondering if this is one of the great illusions like the one of the king who had no clothes. If we try this approach out, maybe we will find that these fears are groundless. I don't know how the rest of the subcommittee feels about this, but I am prepared to vote to report it out and see what happens.

Senator MUNDT. That reinforces what I said about the courageous attitude of the chairman of the subcommittee. I hope you will do that. If they are going to buy the Roosa philosophy, then they had better expand the current concept of the news management to prevent the Wall Street Journal from reporting that we lost another \$50,000 worth of gold holdings last week. Facts are facts and they are not going to be able to seal them off by not talking about them. If we get the bill out, maybe we can smoke from them some more constructive answers rather than say, "Please do nothing; we have 2 more years of thumb-twiddling in which to engage."

This may or may not be the answer. None of us can be too dogmatic or too categorical by saying this is the final answer. But all of us can be a bit dogmatic by saying the time has long since passed, but we just turn our backs on the problem which is getting worse, where we have rapidly ceased to be at the point where we are the greatest producer of gold in the world entirely, with the longest history of dedication to the importance of gold in our monetary structure.

So it seems to me we have to take some action. This thing has reached the peril point, requiring some steps in a corrective direction.

But I didn't come to testify. I came to introduce a man who can testify with great authority and great authenticity.

Thank you for permitting me to introduce him.

Senator GRUENING. Thank you, Senator Mundt.

Mr. McLaughlin, we are glad to have you.

STATEMENT OF DONALD H. McLAUGHLIN, HOMESTAKE MINING CO., SAN FRANCISCO, CALIF., REPRESENTING AMERICAN MINING CONGRESS

Mr. McLAUGHLIN. Mr. Chairman, I am glad to have the opportunity to appear here, but I do feel Senator Mundt's introduction is a bit overgenerous.

I am just a mining engineer, and though our company is the largest producer of gold, I am prepared to say that anything I say about gold is not taken too seriously by the economists and the bankers.

But the economists and bankers disagree among themselves so much even a miner has a chance to disagree with them.

Senator GRUENING. Engineering is a much more exact science than banking and economics.

Mr. McLAUGHLIN. Thank you very much. I have a prepared statement, but I read it over on the plane coming over here and I changed it so much, may I just give you a clean copy when I return?

Senator GRUENING. Yes.

Mr. McLAUGHLIN. For the past 19 years, I have been actively engaged in gold mining as an officer of the Homestake Mining Co. This corporation, now in its 87th year, operates the Homestake Mine in the Black Hills of South Dakota, which in total, as well as in current annual output, is the largest gold producer in the two Americas. From this long association, you may properly suspect that I may be somewhat prejudiced in favor of gold. I want to assure you, however, that my convictions with regard to the steps that should be taken to relieve the current difficulties of the gold miners are based on the broader grounds of our national interest and not merely upon my

appraisal of the benefits that might be gained for our relatively small segment of the American mining industry.

I am very firmly of the opinion that the policies of our Government with regard to gold and its functions as money are tragically mistaken and if continued, will result in loss of financial strength to a degree that may be acutely embarrassing.

As I see it, a reevaluation of gold in terms of the already depreciated dollar and other major currencies of the free world is long overdue.

This would, of course, mean a higher price for gold in dollars which would stimulate gold mining as well as bring far-reaching benefits to the entire free world by promoting monetary stability and providing adequate liquidity for the expanding trade on which prosperity depends.

Unfortunately, we must recognize that the present administration is emphatically opposed to this procedure or to any change in the gold content of the dollar and that the revaluation of gold is not likely to occur until it is forced by harsh circumstances that may be beyond our control.

Senator GRUENING. May I interrupt there to point out that this has been the attitude of not only this administration but of all the preceding administrations.

Mr. McLAUGHLIN. That is true.

Senator GRUENING. Maybe it is fortunate that we can't become partisan on the subject, but it is regrettable that this was the policy of the preceding administration and the administration preceding that.

Mr. McLAUGHLIN. It really has been a consistent policy and cuts across lines in both parties.

But I think they are both wrong.

We in the gold mining industry must, therefore, expect that a sequence of ingenious devices will be employed to support the existing gold policy. We read about them in the paper every day, of the devices that are being used to maintain what basically is a wrong policy. Now, it is only realistic to assume that by these means, the day may be postponed, at least to some extent, when the gold content of the dollar will have to be reduced. This, of course, would be most unfavorable for gold mining, this change. It is clear that as long as present practices prevail, profits from gold mining will continue to decline. With their disappearance, the production of gold from domestic sources will be limited to that obtained as byproduct from ores mined for their base metal content, which, incidentally, will provide less than 20 percent of the amount needed to meet current demands for gold for industrial uses.

The situation is really painfully simple. The decisions should be clear to those who insist that no change be made in our monetary policy with regard to gold. If they prevail, and for a time at least they probably will, the domestic gold mining will have difficulty in surviving unless steps such as proposed in the bill, S. 1273 and preceding bills with regard to a subsidy are taken to relieve it.

The figures for annual gold output reveal that domestic gold mines have been unable to reach a third of their prewar production. The figures for profits from gold mining operations would show a much more drastic decline, with the exception of only a very few they have entirely disappeared. The plants have been shut down. At Home-

stake, where the record is undoubtedly far above the average to the industry, a comparison of the data for 1941, just before the war, and for 1962, are as follows—I think these figures are very revealing. We are mining about the same number of tons:

In 1941, 1,499,000 tons; in 1962, 1,868,000 tons.

The gold bullion revenue was \$19,529,000 in 1941; \$20,270,000 in 1962, more or less the same.

The grade of ore is down a bit, from \$13.02 in 1941 to \$10.82 in 1962.

The payroll, however, in 1941, was \$4,589,000. In 1962, it was close to \$10 million.

The number of employees in the gold operations alone—of course, our company has other operations—was 2,153 in 1941, and it was down to 1,876 in 1962, which reveals the increasing efficiency of the operations.

County taxes went from \$377,000 to \$806,000.

Employee benefits went from \$189,000 to \$610,000, and the earnings from our gold mining operations alone—that is, leaving out uranium and other activities—went from \$8,615,000-some-odd in 1941 to \$2,954,000 in 1962.

I think those figures speak for themselves in what happened to the one really profitable big gold mining operation in the country. If it had not been for the other operations just described, we would be already out of business, for mining at greater and greater depths obviously imposes conditions that must be met by more and more elaborate means. For example, our deepest level is now at 6,200 feet, where the rock temperature is 113 degrees, which required the sinking of an auxiliary shaft costing \$2,335,000 solely for ventilation. So there are costs that necessarily increase as the mine gets old and gets deep. But we have held those costs down to a very nominal advance in unit costs. We are very proud of that. But the most drastic increase in the costs, however, came from a steady depreciation of the dollar over these 21 years, which of necessity resulted in wage increases on the scale necessary for justice to our skillful and experienced employees, as well as higher costs for machinery, explosives, and everything else going into the operations of the mines and mills.

The rising unit cost was restrained somewhat by increasing the daily tonnage mined, which resulted in a larger gross output of gold, but which shortened the life of the operation, based as it is on the availability of ore.

These efforts, based on technical improvements only relieved the pinch between the cost and fixed price for gold to a partial degree, as shown by the decline in earnings for gold mining alone, from \$3.12 per share in 1950 to \$1.45 a share in 1962. These figures compare to earnings of \$4.23 per share in 1941.

Much more drastic figures could undoubtedly be provided from the smaller gold mines of the country. Most of them would show extinction of profits and termination of operations in this interval had already occurred.

Indeed, we would have been close to a similar fate if it had not been possible to increase the rate of mining and milling and to introduce many laborsaving devices as well as benefit from possessing a rather large deposit of relatively high-grade ore.

Unfortunately, even with the utmost skill in devising technical improvements, we must look forward to a further decline in profits if the present policies toward gold are continued. Until our money managers see the light, some aid is essential if our domestic gold mining operation is not to be extinguished in the not too distant future.

The proposals in S. 1273 are well designed to bring about a reasonable measure of relief. They are not concerned in any way with the official gold content of the dollar or with monetary theory but are solely for the purpose of aiding the gold mining industry in its present extreme plight. Under them, a premium would be provide for domestic gold mining for the simple purpose of keeping the industry alive and avoiding a loss to the Nation. Furthermore, it would prevent a sharp decline in the output of gold and at least provide a quantity of the metal, enough to offset the drain on our monetary stocks for gold now sold for industrial uses.

I might interrupt there just to comment upon the testimony Secretary Kelly made when he quoted from a speech of mine, quite properly, in which I said that production would decline with a higher price of gold. That I am sure is true, because existing mills and plants would be used for lower grade ore in the event that the price were increased; that is, we would like to prolong the life of our operations and we would mine ore with a lower cutoff. But then I would anticipate within a rather short time—it is difficult to say whether it would be 1, 2, or 3 years—added exploration, enlarged capacity and so on, and revived properties would pull the quantity of ounces up. I don't think there is any doubt of that. But there would, I think, be a sag and then a rise. That happened in South Africa in the thirties when gold was increased in price to \$35. But very shortly, the production went way beyond the earlier production.

This would, the provisions of the bill under consideration would, in all probability, result in a higher price for gold to the industrial consumer. At present, such users of gold have been privileged in obtaining the metal from the Treasury at the monetary price, which is in effect a subsidy for these consumers at the expense of the producer. It is noteworthy in this connection that since 1958, consumption of gold in the United States considerably exceeded the output of our mines, as other witnesses have clearly brought forth.

For Homestake, the major benefit that would come from the proposed procedures would be the ability to mine lower grade ores and thereby prolong the life of this great operation which means so much to the economy of the State of South Dakota and indeed to the entire region of the high plains surrounding the Black Hills.

With no relief of this sort, we can see our operations ended eventually, not by the exhaustion of the ore supply by the extinction of profits as costs that must be met in depreciated paper dollars—and I might say depreciating paper dollars—rise against the price of gold fixed in the prewar decade; it would take a price of at least \$70 an ounce to restore the conditions that prevailed in 1941. A higher return per ounce would bring about a further enlargement of the available ore supply which could add many decades to the life of the operations.

The principal benefits from the aid to gold mining that would be provided by this bill would go to the community and to Government agencies: Unemployment in the remote regions of the West would be reduced or even eliminated, not only through the expanded operations of existing mines where larger tonnages of lower grade ore would be treated but through the rehabilitation of mines now closed down and through the development of new operations that could be expected as a result of more intensive exploration.

The provisions of this bill, desirable as they are, should not, however, divert our attention from the far more serious problems resulting from our attempt to force the value of gold to accompany the dollar in its decline to less than half its value as measured by the purchasing power it possessed in 1940. Under present practices, we are attempting to "enjoy" and you might put that in quotation marks, the easy virtues of a fiat currency at home and still maintain dollars in the hands of foreign governments and central banks as a hard currency backed by gold at the prewar rate.

It seems to me we are trying to be like the prohibitionist who drinks at home and maintains a very severe virtuous front abroad. This seems to me to be an untenable position unless we conducted our fiscal affairs and continued to conduct them as though we were on the gold standard and subject to its international discipline.

This we clearly have not done and appear to show no intention of doing it. And I think that comment applies to more administrations than the present one, also.

In the not too distant future, as I see it, either gold will have to be completely displaced by managed currencies and credit controlled by some international agency, such as the International Monetary Fund, or gold will have to be revalued in the already depreciated currencies of the world and again allowed to function freely as the basic monetary commodity.

Interestingly theoretical arguments can be advanced in support of the first measure. Indeed, the economic literature of the times is heavy with them. Some of the plans might work and to the extent that certain of their provisions are being tried, the day of reckoning, perhaps, can be somewhat postponed when rivalries or diversities of national objectives are taken into account, as well as the faith all people have in gold, reinforced by their distrust of paper currencies. I am very much inclined to share the general suspicion of forms of money detached from gold and managed by an international agency.

Gold is still accepted over the entire world as the one commodity capable of serving as the base of monetary systems and as a store of wealth. The latter function is one that no paper currency has ever provided.

The cost of major disasters such as the two wars and the various social experiments of the uneasy peace that succeeded them are almost inevitably met by inflation which is simply confiscation of wealth held in currencies or securities, expressed in currencies that are unredeemable in gold.

Since 1914, a succession of major currencies have been wiped out. Others were most drastically revalued. Even the dollar was redefined in terms of gold in 1934, and today it is the only major currency that

is still attempting to conceal its depreciation since 1940 by maintaining convertibility to gold at its prewar rate.

In doing so, gold itself has been favored to accompany the dollar in its decline in purchasing power from 100 to 47 or whatever the figure below 50 is today.

Now I think that is possible simply as long as our gold supply lasts and we are willing to feed gold out to support the outside, the dollar abroad at that price and support the London market at that price.

Our stock of monetary gold has now declined to \$15,683,000, the lowest since early 1939, and over \$7 billion less than the high of \$23 billion.

It is perhaps a noble gesture to say that the current gold value of the dollar will be defended to the last ounce of gold. It amounts to saying that our debts will be paid in dollars of the same gold content as that in which they were incurred. We have already abandoned that position, honest though it may be, as far as the domestic value of the dollar is concerned, as our domestic debts are concerned.

I am afraid terrific commitments, expressed in dollars that resulted from the wars and other extravagances of the times, simply cannot be met in such terms. Gold is capable of providing a stable international base that is properly adjusted to demands upon it, expressed in leading monetary units. One of its virtues, however, is that it cannot be multiplied at will, at the will of the finance minister, or even at the will of an international lending agency.

Gold will have to be revalued if it is to function effectively again. If this move is accompanied by restoration of convertibility, the new gold content of the various currencies will probably reflect their relative value realistically and honestly. That is, if this is accompanied by convertibility—that is the point I would like to emphasize. If you have convertibility of foreign currencies, the new gold content will be an honest content, if they have to face convertibility: if they are protected from it, they can set up artificial gold figures for their currencies, just as was done at Bretton Woods. The gold supply would again be adequate for the demands upon it and an annual increment could be expected from the mines of the world that would be in line with the needs of the anticipated expansion of international trade.

I recognize, however, that these problems are not the immediate concern of your committee and that the bill under consideration is designed to aid the gold miner without becoming involved in any way with the larger questions of monetary policy.

The bill, however, has been opposed on the grounds that higher payments to gold miners would be interpreted as an indication of doubt about the ability to maintain the current official price. Such doubts already exist but they arise from much more critical considerations than aid to the gold miners. They intensify with every announcement of higher short-term claims of dollars in the hands of foreign central banks and the loss of gold. They arise, too, when there appear notices such as the notice which appeared in the paper this morning of the increase in the interest rate.

Actually, the provisions of S. 1273 would tend to reduce the loss of gold from the monetary stock by relieving it of the requirement to provide gold for industrial uses, which should strengthen rather

than weaken our ability to support the dollar at its current gold content.

Admittedly, there are few problems faced by our country today that are more critical than those related to gold and monetary policy. The welfare of the entire economy, as well as that of the domestic gold mines, will be profoundly influenced by the course that is followed. Much more far-reaching changes will have to be made, as I see the problem, before the monetary troubles of the times are corrected. But as a means of preserving the gold mining industry until the proper adjustments in the gold content of the dollar have been made, the precedures provided in the bill under consideration have much to commend them and should, in my judgment, be adopted.

Senator GRUENING. Thank you very much, Mr. McLaughlin, for your very helpful statement.

Then we could say that you are in favor of the enactment of S. 1273?

Mr. McLAUGHLIN. Yes; I am. I think the preceding bill that provided a simple subsidy has a good deal to commend it. If I had to choose between them, I think I would be inclined to choose that. But I think this bill is one way to get at the problem, too, and I am glad to support it.

Senator GRUENING. I think I would prefer the simple subsidy, but it was violently opposed by all the executive agencies. Besides, I think the subsidy proposed in Senate Joint Resolution 44 last year was not sufficient to take care of the more marginal operations. I know that some of the mines that were closed could not reopen with that amount of subsidy. Some of our dredges formerly operating in Alaska would need more help than that. I think if we are going to face this issue at all, we are going to have to go the whole way.

Have you any suggestions for amendments to S. 1273?

One of our witnesses yesterday, Mr. Groseclose, said he would prefer not to see the discretion left with the Secretary of the Interior. How do you feel about that?

Mr. McLAUGHLIN. That is rather a difficult problem. I read Mr. Groseclose's testimony this morning. He makes an interesting case. Anything that really supports a free market test is something I am rather inclined to favor. I think perhaps the bill S. 1273 would bring more positive and quicker relief. The free market in gold is always going to be a very strange market. After all, gold is a monetary metal. The free market for gold would have to be accompanied by a prohibition of imports of gold for industrial purposes or it would have no meaning. Otherwise, it would simply be a short circuit.

Our Government now really, indirectly, supports the London market. If the London market goes up, the British Treasury will pour gold into it and the gold eventually comes out of our Treasury. So as long as that is done and there is gold abroad at \$35 an ounce, if that gold will come back to the United States, the price will be \$35 an ounce.

Senator GRUENING. Mr. Dominick?

Senator DOMINICK. Thank you, Mr. Chairman.

I think I would like to go over that last statement with Mr. McLaughlin again, because I am not quite sure that I follow it. The gold market in London, as I understand that, is a relatively free market and has gone up substantially above \$35 an ounce in the past 18 months.

Mr. McLAUGHLIN. It is relatively free, but there is a general understanding, I am quite sure, among the central banks of the world now, and led by the United States, that they will put gold into that market to keep the price close to the monetary price. As long as gold is made available from our Treasury stock, even indirectly, I think the price from that market can be held. When we begin to run out of gold, then that will be another story.

Senator DOMINICK. Well, this is what made me come back at you on this question.

When the United States put in a self-imposed limitation on further sales of silver out of monetary stock for industrial purposes, the price of silver almost immediately started going up, as did production of silver as a result of this.

Now it would seem to me that we could anticipate somewhat the same results if we did this as far as gold is concerned.

Mr. McLAUGHLIN. If we would cease sales of gold from the Treasury for industrial purposes, and if we would cease supporting the London market, the price of gold, I am sure, would go up. I think there is a very close analogy between what is happening in silver and what is happening in gold. We have a currency, an already depreciated currency and a depreciated currency tied to a valuable metal.

Now, in silver, the industrial uses have gone up to such an extent that the demand is really greater than the world supply at the present time. It is pretty obvious that you couldn't hold it artificially to the price that was the monetary price. That same thing is probably happening to gold. The consumption of gold in the United States, which exceeds our domestic production, is for legitimate industrial uses, because the Treasury won't sell it for anything else.

Now, abroad, I think the last figure indicates that only a little over 30 percent of the world's gold is going into monetary uses. The rest of it is going into nonmonetary uses. Well, of course, that includes what is stigmatized in part by the term "hoarding." It includes both legitimate industrial uses and hoarding. But the demand is clearly there and it is the demand that really will, in many ways, force the price up.

Senator DOMINICK. Do you have any knowledge of the degree of production of gold by the Soviet Union?

Mr. McLAUGHLIN. No, I haven't. I happened to be at a dinner party with Mr. Kozlov when he was here, and I told him that I would like to visit Russia and see some of the mines. He said, "Oh, any American engineer would be very welcome."

I said I would particularly like to see the gold mines. He said, "That is one of the few mines we won't show you."

I asked him what the figures were for production of gold and he said "I don't keep figures like that in my head."

Then he smiled and said, "Well, if I did have them in my head, I wouldn't tell you."

It is really quite a closely concealed figure. The Bureau of Mines estimates around 10 or 11 million ounces, I think. That is between South Africa and Canada.

Senator DOMINICK. Last year at hearings, I understand they thought Russia was producing around 25 percent of the available world supply.

Very recently, an article came out in the London Times indicating that they thought this was a decided exaggeration, designed to try to panic us in some way.

Mr. McLAUGHLIN. Yes. There have been some articles recently perhaps from knowledgeable people which would indicate that the Russian gold mining industry is not in too good a condition and that their cost of producing gold is extremely high, many times \$35 an ounce. But there again, it is very hard to guess.

Senator DOMINICK. Going back to these immediate bills here, in the light of what you said in connection with the support of the free gold market by the U.S. transportation of gold, do you believe that the Treasury is right in saying that you cannot separate the monetary significance from the industrial uses of gold?

Mr. McLAUGHLIN. Well, it is right and wrong. I don't think—it is a very critical thing. The Treasury is most anxious and the President has certainly stated it emphatically, to preserve the price of \$35 an ounce. Now, the only way that that price will be preserved will be by checking the deficit in international payments.

And we were assured a year ago that that deficit was going to be checked. The deficit is greater than it ever was. I think that is so overwhelmingly greater than any other factor that I think they are overalarmed at the effect that a subsidy of some sort—alarmed about what effect a subsidy would have.

I really don't think it would have any significant effect.

But, of course, they say it would be two prices of gold; in a sense it would. I really think the fundamental problem, however, is going to be a revaluation of gold. I don't like to use the term "devaluation of the dollar." I think the devaluation effectively has already occurred—that is, the dollar is now 50 percent of what it was before the war. That changing of the gold content of the dollar is only a recognition of what has happened.

I would call that a revaluation of the gold, not a revaluation of the dollar or other currencies.

Senator DOMINICK. Thank you.

Senator GRUENING. Well, thank you very much, Mr. McLaughlin.

We appreciate your coming here very much. Your testimony has been very helpful.

Our next witness is Mr. George A. Nugent, president of Paramount Mining Co.

Go ahead and read your statement, Mr. Nugent, and interpolate at any time.

STATEMENT OF GEORGE A. NUGENT, PRESIDENT, PARAMOUNT MINING & MILLING CO.

Mr. NUGENT. Thank you.

My name is George A. Nugent. I am president of the Paramount Mining & Milling Co., a Nevada corporation with an office at 749 West Sixth Street, Reno, Nev.

I am glad to have this opportunity to comment on the two bills which are the subject matter of this hearing, but first permit me to express my personal appreciation of the unrelenting efforts of this subcommittee over the past several years in seeking to further the

interests of the once important gold mining industry of the Western United States which for decades gave employment to more men than were engaged in all other Western mining combined, and which has now reached these meaningful hearings of the past 3 days.

It remains to be seen what can actually be accomplished on behalf of the gold mining industry in the face of the active opposition of the entrenched monetary managers, but I assure you that your efforts have not gone unnoticed by tens of thousands of Western mining people to whom you have given renewed hope and encouragement—who applaud you and wish you well.

The propaganda mediums of government bombard us every day with what they refer to as “morality” and “moral” issues, not only in government but in business, and yet they seek desperately to perpetuate an inherited lie from previous administrations, which, I believe, is one of the biggest and most damaging in all history.

When such as Khrushchev and Castro indulge in the so-called big lie, it is most reprehensible and in some manner a hallmark of our enemies, but when our Government indulges in the same technique in connection with gold it suddenly becomes essential to the United States and the well-being of the monetary system of the free world.

In the regulations implementing the Gold Reserve Act of 1934, it is stated that one dollar is equal to one thirty-fifth of an ounce of gold. The erosion of the purchasing power of the dollar has been continuous since that date, and as of today it amounts to approximately 41 cents of what it was stated to be in the gold regulations of 1934.

And yet our money managers seek to maintain the fiction that the 1963 dollar must still be considered to be worth one thirty-fifth of an ounce of gold, with no more authority for their shrilly repeated statement than the fact that virtually every country in the free world is an economic province of the Treasury Department, with a clearly recognizable hesitancy to openly challenge the power and majesty of the United States, and the simple fact that they continue to profit by the maintenance of the fiction.

What the free market price of gold might be remains to be seen at some future date, but it can be stated with all certainty that the longer a free market is postponed the higher will be the price.

You gentlemen are more familiar than I am with the efforts to remove not only gold but silver from our domestic monetary system. You have seen the trial balloons sent up by eminent bankers and economists advocating the withdrawal of the 25-percent gold backing for our currency in circulation, and the bills introduced in both branches of the Congress to bring that about as well as the withdrawal of our silver certificates.

It is entirely apparent that unless the present trend is reversed, the “hard money” of our fathers will soon be ancient history.

In my innocence of the workings of the money managers, I have held the thought that if any branch of the Government would fight to the last ditch to preserve our gold supply, it would be the Federal Reserve bank. However, I have recently read a speech delivered by William McC. Martin, Jr., Chairman, Board of Governors of the Federal Reserve System, delivered at the joint luncheon of the American Economic Association and the American Finance Association, in

Pittsburgh, Pa., on December 28, 1962, in which he makes the following statement:

No question exists or can arise as to whether we shall pay for the debts or liabilities we have incurred in the form of foreign dollar holdings, for that we most certainly must do—down to the last bar of gold, if that be necessary.

I have failed to observe any statements of our monetary managers advocating the retention of our gold hoard as a fundamental principle.

The information sought to be developed by the surveys contemplated by S. 100 will doubtless establish what we all know, that there is no dearth of gold deposits in the Western States, which can be mined at a profit once the price of gold is brought into line with production costs. Western mining was killed by U.S. Treasury policy; remove that curb and our industry will be resumed in proportion to incentive designed.

However that all may be, I believe there exists the possibility of the reactivation of hundreds of marginal properties in the Western States as a result of recent advances in mining and milling techniques exemplified by the Paramount Sonic Mill.

I understand that the Stanford Research Institute has perfected a new highly sensitive and inexpensive detection device, as well as improved and more economical methods of mechanized underground mining—but it is in the field of lower mill installation costs and lower milling costs that real savings and economies can be accomplished.

Generally speaking, the cost of the installation of a conventional mill is approximately \$3,000 per rated ton of capacity. It has recently been announced that the Federal Resources Corp., of Salt Lake City, of which Mr. Floyd B. Odum is chairman of the board, is putting in a new mill at Bellevue, Idaho, with a capacity of 250 tons and at a cost of \$750,000, to handle the ores of the Minnie Moore Mine, as well as to do custom milling for neighboring producers.

Since the earliest time, ores, and all other materials requiring reduction, have been reduced in size by abrasive action, pounding and grinding, and of recent years in Western mining operations, by a variety of stamp mills, hammer mills, ball mills, rail mills, etc.

The field of high-speed sonic reduction of ores, and other materials, has hardly scratched, and the obvious possibilities are immense.

The typical hammer mill accomplishes a size reduction of the material produced very largely by dynamic blows the material experiences from pivoted hammers which rotate at relatively low speed with respect to the casing [grating] the spaces of which determine the particle sizes. There is a small amount of explosive disintegration, if the mill is swept by a stream of hot gases and the material absorbs heat, and a small amount of attrition.

In the Paramount Mill, there occurs a small amount of impact reduction and attrition, but principally a large amount of explosive disintegration due to static pressure gradients through which the material is made to move physically—action like a supersonic nozzle—(converging—diverging) or a subsonic nozzle (converging only). The material is reduced to micron size instantaneously.

The Paramount Mill is now in Salt Lake City, and I understand that there are two other mills of somewhat similar construction, located in California. I am told that a Paramount-style mill of a capacity of approximately 5 tons an hour, can be manufactured com-

plete for approximately \$10,000. It can be mounted on a trailer, operated by any manner of powerplant, and taken anywhere as it requires no water to operate.

The Bureau of Mines, which maintains 22 test centers and laboratories, staffed by 2,400 employees, appeared to me to be the logical medium to test the several available mills and to evaluate them. One-third of the Bureau's budget is earmarked for research and development mostly in connection with coal and related products.

The Bureau project manager appeared interested and suggested that I meet with the head of the Salt Lake office which I did, but unfortunately, he turned out to be entirely negative.

The other officials of the Bureau contacted to date appear to be devoid of any professional curiosity; seemingly, they have their present programs all set and can only think of recommending that some other branch of the Government, or industry, undertake the necessary testing and evaluation of the same mill.

I fail utterly to understand their attitude which is so very different from what might be expected of responsible officials concerned with the welfare of western mining. I have not sought out the higher officials in the Bureau of Mines or of the Interior Department, for I am given to understand that personal changes are in the making.

I do take this opportunity to invite the attention of your subcommittee to the general situation and to assure you that we stand ready to cooperate with your committee in any manner which might be suggested.

Senator GRUENING. Thank you very much, Mr. Nugent. I think that your comments on the lack of interest on the part of officialdom is something which should be called to the attention of the Secretary of the Interior and I shall do so. I find myself in accord with the views you present here and as far as I am concerned, we are going to pursue this as long and as hard as we can.

Mr. NUGENT. Thank you.

Senator GRUENING. Senator Dominick?

Senator DOMINICK. Thank you, Mr. Chairman.

I would just like to ask a couple of questions. Is the Paramount Sonic Mill now in pilot-plant form at all?

Mr. NUGENT. No; it is not set up to run, but a test can be run in a matter of days.

Senator DOMINICK. Was this developed by your company, Mr. Nugent?

Mr. NUGENT. Very largely, yes. Our company has the patent rights to it and it is entirely controlled by the Paramount Co.; yes.

Senator DOMINICK. Would this work on ores other than gold?

Mr. NUGENT. Yes; it would work on any material which requires reduction.

Senator DOMINICK. But you have not run any tests on it yourself through a pilot plant?

Mr. NUGENT. Yes; hundreds of hours have been put on the mill. We have run it through a wide variety of—

Senator DOMINICK. Oh, I see. I had understood your plant was not in operation.

Mr. NUGENT. Well, it is not at the moment. It is down, but I think this particular mill has a record of 700-some hours. It has handled

the hardest of materials, carborundum ores and tungsten ores out of your State, which are very high on the scale of hardness.

Senator DOMINICK. I think it should be made clear in the record that recently we have had a joint committee hearing on the gold flow and the Secretary of the Treasury testified in that hearing that the cause of the outward flow of our gold is attributable to four specific items—foreign aid, military aid, an imbalance in tourism receipts and expenditures, and capital outflows by virtue of financing foreign issues in our capital market here.

One of the things he didn't mention but has been brought out quite clearly since then is the use of our own gold stock for industrial uses.

This has created quite a loss in gold as far as the Treasury is concerned. Do you advocate, in order to cure the latter problem and to help the miners, the passage of S. 1273, or would you prefer a solid subsidy bill such as was presented in Senate Joint Resolution 44 last year and some other bills?

Mr. NUGENT. Well, I think the gold miner would take anything he might get, whether it is subsidy or what-have-you. But if the domestic market could be confined to domestically produced gold, that certainly would be desirable. If there is not a commingling of monetary gold and domestically, currently produced gold, I fail to see any particular validity to all the apprehensions concerned.

Of course, I believe our monetary managers are pretty well bankrupt of ideas and have resorted to every device which they could conceive of to keep their show going.

I believe they are getting more and more desperate. When they will actually face up to the simple facts, who can tell? Possibly when the International Monetary Fund meets in September, there might be something. But they can't stall it off forever.

Senator DOMINICK. Thank you, Mr. Nugent.

That is all I have, Mr. Chairman.

Senator GRUENING. Thank you very much, Mr. Nugent.

The next witness is Mr. Loren Thompson of Parkersburg, W. Va.

Mr. THOMPSON. Mr. Chairman, in the interest of time, I wish to go from the center of page 6 to page 11, but I would like my entire statement to be in the record.

Senator GRUENING. The entire statement will be in the record, as well as your oral testimony.

Mr. THOMPSON. Thank you.

STATEMENT OF LOREN E. THOMPSON, SR., INVENTOR OF SPLIT-WATER PROCESS OF MINING, PARKERSBURG DIE & TOOL CO., PARKERSBURG, W. VA.

Mr. THOMPSON. Mr. Chairman, I appreciate your and the committee's, as well as others, interest and efforts in trying to solve the gold miners' problems.

I further express my appreciation at this time for being able to speak before this committee in support of the current issues. My comments are unorthodox in nature. They do not deal with the effects of the monetary systems or problems. Sufficient conjecture has already been expressed along these lines. My remarks deal with the basic

problems from the miners' viewpoint, grassroot technology if you please.

My name is Loren E. Thompson, Sr., of Parkersburg, W. Va. I am the owner of the Parkersburg Die & Tool Co., of Parkersburg, W. Va. I engage in various types of manufacturing. These include general machine shop items, machine tools, special equipment, design research and development of specialties, defense work for the Government, both civilian and military. One of the products of my research and development work is the split-water process of mining. "Split-water process" is the technical term I apply to the technique of mining saprolite ore.

Mr. Chairman, with your permission, I would like to introduce a few basic remarks which should be made part of the record. These remarks cover an area of potential minerals and mining that might otherwise be forgotten as these hearings proceed.

All economists recognize the fact that mankind's constant endeavor to achieve in his manner of living, his manner of education, his manner of exploring new fields in all phases of science, his manner of expanding, his manner of helping his fellow man, his very manner of existing, has, in fact, been a constant stimulant for man to look and search for and to develop new types and sources of raw materials.

In no other time in history has the endeavor been so centered around the development of rare metals and minerals and their discovery, by-products, mining, and refining techniques.

In this connection, all stable economy has for its basic foundation, the ability of man to produce from the great storehouse of creation—the earth itself. In conjunction, each generation always has been able to find the correct equilibrium in its economy by adjusting the various factors of value of natural resources produced from the earth.

In our time, we look at the effort of the American Government in the early 1930's to readjust the economy of the United States, or in fact, the whole earth by the revaluation of the mined gold reserves. While only a short decade has transpired since this adjustment, it must be remembered that the pace of man's economy is moving much faster today than in the early part of the 20th century.

Inflationary trends already have overtaken the progress of the last readjustment of our economy and has long destroyed the correct equilibrium. Therefore, no other alternative is available to our Government but to retard the rapid pace with which inflation is now destroying this equilibrium and to reevaluate our metal reserves. This, in turn, will automatically advance the progress of minerals and mining development.

New methods of mining, new techniques of processing and recovery are constantly being looked for by men of vision in these various fields. In addition to the development of new kinds of equipment, new mineralized areas and locations, in most cases unproven in worth and value, are being prospected and evaluated.

These valuations, in most instances, call for and demand the complete new development of technical devices and machinery to effect satisfactory recovery from the scattered value which occurs in mineralization that, by reason of necessity, must now be made possible to develop. The split-water process of mining and recovery is one of the products of this urgent demand.

In conjunction, the Appalachian Mountain system of the eastern United States is one area of extreme importance in considering the possibility of developing new minerals and new sources of mineral supply. Other areas of the continental United States and other sections of the earth may also be considered; in fact all of these sections likewise must be considered important in view of the situation as it exists today.

I, having observed the moving trend of the economy for many years, have, in fact, studied many of the pros and cons and possibilities of the development of these low paying mineral areas which, in many instances, cease to be properly identified as belonging to the submarginal group.

However, the correct analysis, in the terms of general mineralization, would immediately identify and place these sources of mineral in the single category of producers of one or two outstanding value elements if it were not for the complex coexistence of many strategic elements in the general mineralization of these mineral deposits.

This common coexistence of such elements in turn leaves the possibility of development and recovery of values in a very complete complex field and often very technical and beyond the realm and reach of the average thinking of ordinary field personnel. This fact alone has delayed the proper development of many economically sound mineral and mining projects.

Many field trips have been enjoyed by me while studying the possibility of development of satisfactory technical equipment to overcome this difficulty. These field trips have taken me from the various mineral belts of the Appalachian Mountain ranges to the central and southern Sahara Mountain ranges of Sonora, Mexico.

The southern Appalachian Mountain region, consisting of parts of the State of Maryland, West Virginia, North Carolina, South Carolina, Georgia, and Alabama, contain several thousand square miles of mineral zones.

Many individual mineral belts are found in these Southern States. The Piedmont region, starting near Washington, D.C., crossing the States of Virginia, North Carolina, and into South Carolina, is one of the defined mineral zones. The Blue Ridge region in North Carolina, the Upper Piedmont region, and the Piedmont Plateau have caused the State of North Carolina to classify its "gold deposits" into the following mineral belts:

1. The eastern Carolina belt.
2. The Carolina State belt.
3. The Carolina igneous belt.
4. The Kings Mountain belt.
5. The South Mountain belt.
6. The mines west of the Blue Ridge or the western belt.

These mineral belts extend across the State of North Carolina, into South Carolina, and into the State of Georgia.

The State of Georgia embodies probably the largest and most extensive mineralized zones in its upper Piedmont belt and lower Piedmont belt. The mineralized zones extend across the State from the northeast to the southwest. The State of Alabama has five mineralized

zones which cover six counties. The mineralized zones are very large and are listed as follows:

1. Ashland mica schist.
2. Wedowee formation.
3. Talladega series.
4. Hillabee schist.
5. Pickneyville granite.

These Appalachian States with their various mineral zones covering millions of acres contain unimaginable amounts of wealth in mineral elements. Gold is the leading element of value in all of these mentioned regions. The values for the most part are found in Saprolite ore.

The term "Saprolite" is a Greek word meaning "rotten rock." This decomposed matter starts at the grass roots and extends to an average of 100 feet into the mineral formation. Usually, below this depth, the formations are hard and are generally found in the originally composed state.

Many attempts have been made in the last 100 years to mine or recover gold from the Saprolite ore. All attempts have ended in failures. Ironically, nature still retains all of this wealth in its natural storehouse, while, for the most part, the geological areas involved are in a distressed condition. Unemployment is high and job opportunities are few. Our national gold reserve is declining very rapidly. Unfortunately, our sincere and active efforts to explore, develop, and operate new gold mines is declining at a much faster rate.

I would like to quote, at this point, from Bulletin No. 38, Department of Conservation and Developments, of the State of North Carolina. (The remarks about the recovery of gold can be applied to all of the southern Appalachian mining States.):

Since the revival of gold mining in North Carolina in 1930, two other processes were experienced with, and both were abandoned.

In such sections of the State, especially at the Portis and Parker mines, the abundance of plastic clays has made the recovery of the gold an impossibility. Several methods have been tried out unsuccessfully to disintegrate the clays. The clay is so tenacious that, if trommels are used, the gold is so pulverized that it floats out in the clay slimes. The Snodgrass machines and log washers have also proved unsuccessful because the quartz fragments tend to prevent the revolving of the blades within the drums. After the clay has been thoroughly disintegrated by these methods, the gold is worn so fine that it floats out in the slimes and does not come in contact with the amalgamation plates.

The problems will have to be solved before many of the placer deposits can be operated profitably in North Carolina.

The first problem is the disintegration of the clay without the pulverizing of the gold to such a fineness that it floats out in the slimes. The second problem is the recovery of the gold from the clay slimes at economical cost regardless of the fineness of the gold. If these two problems can be solved and the ore can be handled at low cost, there are many placer and saprolite deposits in the southeastern United States which could be worked profitably.

A process of disintegration will have to be worked out in which the gold will be eliminated in the very beginning so that it will not be pulverized to such a fineness that it will be impossible to recover it. After the clay has been completely disintegrated, some process of recovery will have to be devised to recover the fine gold from the clay slimes. All processes so far attempted have been failures due to the inability of the operators to recover the fine gold by straight amalgamation and on English blankets, as the clay, more or less in a colloidal state, coats the plates in such a manner that the gold never comes in contact with them. Also the burlap blankets and English blankets become so covered with the fine clay that the gold floats off in the water.

It appears, from the quoted remarks, that there are several problems which will have to be overcome before any extensive gold mining can be done in the Appalachian States, with any degree of success. Reference is made to the fact that the values are spotty and range from 10 cents per yard to \$20 per yard, but generally average less than \$1 per yard with some of the saprolite averaging between \$2 and \$3 per yard.

Further reference is made to the remarks about the technical problems which will have to be solved.

1. The disintegration of the clay.

2. The recovery of the gold from the clay slimes. If these two problems can be solved there are many saprolite deposits in the Southern States which can be worked at a profit.

I am pleased to advise that after a long and trying period of research and development, starting in 1940, excluding the war years, with an expenditure of approximately \$500,000. I have achieved a complete breakthrough on the last two problems.

The split-water process is a mining technique which has been designed to process clayed ores which contain gold, silver, platinum, copper, rutile, ilmenite, titanium oxide, zirconium, and so forth. This process is the only known process capable of reducing tenacious mineral clays which contain the values in the saprolite mining belts of the Appalachian Mountain Range into a refinable concentrate rendering the values in marketable condition.

The split-water process has the unique features of being able to dissolve the tenacious clayed materials causing the ore gangue to go into a perfect state of suspension, thereby eliminating the clay balls which have robbed the values in all of the known attempts in mining this material.

The split-water process has additional capacity to deslime the ore gangue after it is put into a state of suspension thereby recovering all the fines of selected specific gravity classification. No chemicals or agents are required. The gold is recovered as free natural grains as produced by nature from the quartz. The sands and gravels are all classified and made available for sale as a byproduct or for building materials.

The ore gangue, which consists of saprolite, mineralized zones, schists, gneises, decayed rock formations, or any other type of ore which may contain recoverable values, usually have such scattered and dissimulated values that the quantity of value in each field ton would not pay to process from the usual mining or milling standpoint.

The split-water process has been specifically designed, since most of the ores are now oxidized or weathered in place, in some cases to depths of 200 to 300 feet, to reduce the tremendous bulk of the field ore conveniently into a field concentrate with a ratio of approximately from 100 to 1.

The various parts of the field gangue are divided into the correct classifications and may be marketed as a number of byproducts. The valued elements, such as metallic minerals, oxide elements and all various forms of recovered values may be refined to suit the available market to the best advantage.

Mining machines employing the technique as just described are complicated and very expensive to manufacture. A complete split-water

process installation costs \$500,000 for a 500-ton unit, and a 2,000-ton unit would cost \$1 million. Technical management is exacting and requires considerable advanced planning with long-range views. Investment capital mounting into the millions of dollars will be required.

In viewing these facts, the problems appear insurmountable with the present \$35 price of gold. Financing in these amounts cannot be arranged for easily unless tremendous potentials in deposits are proven and the general public more enlightened. However, the enactment of bill S. 1273 would immediately stimulate the incentive of the speculative investor. The enactment of this legislation is virtually impossible at this time to make possible the acquisition of capital equipment. With the present price of gold, millions of acres of saprolite ore deposits are considered submarginal for first-class speculative risks, even though very rich streaks occur quite frequently.

In order to mine these saprolite zones profitably, considerable testing or surface blocking out is required. This exploration work in saprolite zones is very technical and very expensive. Special trained crews are required and portable equipment which produces actual mining values using the split-water-process technique is expensive to manufacture and operate. The enactment of bill S. 1273 would stimulate the possibilities for the acquisition of funds for exploration and development work to prove the mining potentials of the mineral deposits.

Assistance is required in several forms to enable the gold mining industry to get started again; financial, technical, academic assistance are all required if the industry is to regain its rightful place in our progressing economy.

Financial assistance in various forms is badly needed since the industry is faced with an extremely high-cost, get-started period. The enactment of bill S. 1273 and any companion legislation will be a step in the right direction. Gold at \$105 an ounce will enable capital to be obtained from many investors who would feel assured of a reasonable return.

The enactment of the present proposed legislation will not only assist gold mined but also will, in effect, assist other related industries. Many of the minerals areas have little or no industry to furnish gainful employment for the people who live there. The proposed legislation is sound and logical. It does not extend any further into the world monetary system than to convince foreign observers that action is being taken to maintain our dollar with ample gold reserves showing the fact that our natural resources are still more than ample to maintain the stability of our country's economy.

Foreign observers are fully aware of the fact that the hard shell of our credit and monetary stability could well be broken by the "inconsistent and uncontrollable" "do nothing attitude" of the various Central Government departments. Once the backbone of our reserves is depleted to the place where it is too late it would be very hard to recover from that position since one of the most expensive necessities of mining and development work is time, and at that point that will be a commodity that cannot be legislated into existence. I therefore urge that every possible effort be made to persuade the present session of Congress to act on these measures.

Chaos will not befall us, as some have expressed, but on the contrary great American industry will start to grow again and bring new economic vigor to many sections of our Nation and new strength to our economy and new investment opportunities for American capital at home—not abroad.

Mr. Chairman, gentlemen, I thank you for this opportunity to express these views. As in the past, I shall continue in my endeavor to bring the gold mining industry to the Appalachian States.

(The complete statement of Loren E. Thompson, Sr., follows:)

STATEMENT OF LOREN E. THOMPSON, SR., INVENTOR OF THE SPLIT-WATER PROCESS OF MINING, PARKERSBURG DIE & TOOL CO., PARKERSBURG, W. VA.

Mr. Chairman, I appreciate yours and the committee's, as well as others' interest and efforts in trying to solve the gold miners' problems. I further express my appreciation at this time for being able to speak before this committee in support of the current issues. My comments are unorthodox in nature. They do not deal with the effects of the monetary systems or problems. Sufficient conjecture has already been expressed along these lines. My remarks deal with the basic problems from the miners' viewpoint, grassroots technology, if you please.

My name is Loren E. Thompson, Sr., of Parkersburg, W. Va. I am the owner of the Parkersburg Die & Tool Co. of Parkersburg, W. Va. I engage in various types of manufacturing. These include general machine shop items, machine tools, special equipment, design research and development of specialties, defense work for the Government, both civilian and military. One of the products of my research and development work is the split-water process of mining. Split-water process is the technical term I apply to the technique of mining saprolite ore.

Mr. Chairman, with your permission, I would like to introduce a few basic remarks which should be made part of the record. These remarks cover an area of potential minerals and mining that might otherwise be forgotten as these hearings proceed.

All economists recognize the fact that mankind's constant endeavor to achieve in his manner of living, his manner of education, his manner of exploring new fields in all phases of science, his manner of expanding, his manner of helping his fellow man, his very manner of existing, has, in fact, been a constant stimulant for man to look and search for and to develop new types and sources of raw materials.

In no other time in history has the endeavor been so centered around the development of rare metals and minerals and their discovery, byproducts, mining, and refining techniques.

In this connection, all stable economy has for its basic foundation, the ability of man to produce from the great storehouse of creation—the earth itself. In conjunction, each generation always has been able to find the correct equilibrium in its economy by adjusting the various factors of value of natural resources produced from the earth.

In our time, we look at the effort of the American Government in the early 1930's to readjust the economy of the United States, or, in fact, the whole earth by the revaluation of the mined gold reserves. While only a short decade has transpired since this adjustment, it must be remembered that the pace of man's economy is moving much faster today than in the early part of the 20th century.

Inflationary trends already have overtaken the progress of the last readjustment of our economy and has long destroyed the correct equilibrium. Therefore, no other alternative is available to our Government but to retard the rapid pace with which inflation is now destroying this equilibrium and to reevaluate our metal reserves. This, in turn, will automatically advance the progress of minerals and mining development.

New methods of mining, new techniques of processing and recovery are constantly being looked for by men of vision in these various fields. In addition to the development of new kinds of equipment, new mineralized areas and locations, in most cases unproven in worth and value, are being prospected and evaluated.

These valuations, in most instances, call for and demand the complete new development of technical devices and machinery to effect satisfactory recovery from the scattered value which occurs in mineralizations that, by reason of neces-

sity, must now be made possible to develop. The split-water process of mining and recovery is one of the products of this urgent demand.

In conjunction, the Appalachian Mountain system of the Eastern United States is one area of extreme importance in considering the possibility of developing new minerals and new sources of mineral supply. Other areas of the continental United States and other sections of the earth may also be considered; in fact, all of these sections likewise must be considered important in view of the situation as it exists today.

I, having observed the moving trend of the economy for many years, have, in fact, studied many of the pros and cons and possibilities of the development of these low-paying mineral areas which, in many instances, cease to be properly identified as belonging to the submarginal group.

However, the correct analysis, in the terms of general mineralization, would immediately identify and place these sources of mineral in the single category of producers of one or two outstanding value elements if it were not for the complex coexistence of many strategic elements in the general mineralization of these mineral deposits.

This common coexistence of such elements in turn leave the possibility of development and recovery of values in a very complete, complex field, and often very technical, and beyond the realm and reach of the average thinking of ordinary field personnel. This fact alone has delayed the proper development of many economically sound mineral and mining projects.

Many field trips have been enjoyed by me while studying the possibility of development of satisfactory technical equipment to overcome this difficulty. These field trips have taken me from the various mineral belts of the Appalachian Mountain Ranges to the Central and Southern Sierra Mountain Ranges of Sonora, Mexico.

The southern Appalachian Mountain region, consisting of parts of the States of Maryland, Virginia, North Carolina, South Carolina, Georgia, and Alabama contain several thousand square miles of mineral zones. Many individual mineral belts are found in these Southern States. The Piedmont region, starting near Washington, D.C., crossing the States of Virginia, North Carolina, and into South Carolina, is one of the defined mineral zones. The Blue Ridge region in North Carolina, the Upper Piedmont region, and the Piedmont Plateau have caused the State of North Carolina to classify its gold deposits into the following mineral belts:

1. The eastern Carolina Belt;
2. The Carolina State Belt;
3. The Carolina Igneous Belt;
4. The Kings Mountain Belt;
5. The South Mountain Belt; and
6. The mines west of the Blue Ridge or the Western Belt.

These mineral belts extend across the State of North Carolina, into South Carolina, and into the State of Georgia.

The State of Georgia embodies probably the largest and most extensive mineralized zones in its Upper Piedmont Belt and Lower Piedmont Belt. The mineralized zones extend across the State from the northeast to the southwest. The State of Alabama has five mineralized zones which cover six counties. The mineralized zones are very large, and are listed as follows:

1. Ashland Mica Schist;
2. Wedowee Formation;
3. Tallodega Series;
4. Hillabee Schist; and
5. Pickneyville Granite.

These Appalachian States, with their various mineral zones covering millions of acres, contain unimaginable amounts of wealth in mineral elements. Gold is the leading element of value in all of these mentioned regions. The values, for the most part, are found in saprolite ore.

The term "saprolite" is a Greek word meaning "rotten rock." This decomposed matter starts at the grassroots and extends to an average of 100 feet into the mineral formation. Usually, below this depth, the formations are hard and are generally found in the originally composed state.

Many attempts have been made in the last 100 years to mine or recover gold from the saprolite ore. All attempts have ended in failures. Ironically, nature still retains all of this wealth in its natural storehouse, while, for the most part, the geological areas involved are in a distressed condition. Unemployment is

high and job opportunities are few. Our national gold reserve is declining very rapidly. Unfortunately, our sincere and active efforts to explore, develop, and operate new gold mines is declining at a much faster rate.

I would like to quote, at this point, from bulletin No. 38, Department of Conservation and Developments, of the State of North Carolina. (The remarks about the recovery of gold can be applied to all of the southern Appalachian mining States.)

"Since the revival of gold mining in North Carolina in 1930, two other processes were experimented with, and both were soon abandoned."

The first process was tried on the saprolite ores of the Portis Mine in Nash County, and later at the Black Ankle Mine in Montgomery County. It is reported that over \$150,000 was spent in trying to prove this particular process, which was known as the centrifugal or Lewis Process. The soft decomposed rock or saprolite was dug by a steam shovel and delivered to the plant by dump trucks. The ore was dumped on a grizzly, the large fragments of quartz and hard rock were thrown aside, and the fines dropped on bucket elevators. The bucket elevator hoisted the material to the top of the plant and emptied it into a 40-ton log washer or disintegrator. From the log washer the material is emptied on a screen. The coarse material was stacked for later grinding in ball mill, while the fines went direct by trough and pipe into the centrifugal machine.

The centrifugal machine consisted of cylindrical bowl mounted in such a manner that it would revolve at varying speeds. The centrifugal machines were used in batteries of four, and were said to handle 50 tons of ore each per day. The inside of the bowl was lined with horizontal grooves about one-quarter inch in depth. The sludge or disintegrated material was fed by 4-inch pipe down the center, and the material was discharged at the bottom of the bowl. The bowl was revolved at varying speeds, depending on the consistency of the sludge entering it. The material was discharged by the centrifugal motion over the sides of the bowl, while the mercury, and any gold it might have picked up, was caught in the grooves. Since the ore consisted of a great deal of very plastic clay which had the tendency to pack into the grooves when the machine revolved, thus causing some of the mercury and gold to be discharged over the rim, the process was a complete failure. The ore, according to assays, showed an average of about \$2 per ton, while the machine recovered only \$0.40 to \$0.60 per ton.

After this failure at the Portis mine, the entire plant was moved to the Black Ankle mine in the northeastern part of Montgomery County. After several futile attempts to operate this plant profitably, it was finally abandoned. A great deal of the machinery is still at the property.

The second process recently attempted in North Carolina is an electrical or Gardner process. The plant erected at the Parker mine, near New London in Stanley County, did not prove successful and was soon abandoned. Various reasons are given for the abandoning of this process at the Parker mine, among which are: The clay or saprolite did not contain sufficient gold; the process failed to recover the gold; and there was some dispute between the man financing the proposition and the engineer in charge.

The plant consisted of a revolving drum or disintegrator, sluice boxes, the necessary screens, and the electrical amalgamator. The ore was mined with drag, emptied on a grizzly, the coarse material filed for later grinding, and the fines shoveled by hand into the disintegrator. Some large quartz pebbles were also placed in the disintegrator to help break up the plastic clay. The sludge from the disintegrator emptied on a screen which took out bits of wood, leaves, and other foreign materials. The clay sludge emptied into sluice boxes with riffles for collecting the coarse gold. The fine gold was to be recovered by the electric amalgamator.

The electrical amalgamator consisted of two copper plates, one above the other, about 1 inch apart. The plates were silvered, the top plate on the bottom and the bottom plate on the top, then mercury applied to both plates. The two plates were used as electrodes for an alternating current. As the sludge passed between the plates the electric current caused the precipitation of the gold either on the top or the bottom plate, depending on the flow of the current.

Since the above electrical amalgamator did not prove successful on the ores in North Carolina, further developments were made, and at the present time two of such machines are being used at the recovery plant built near Gold Hill to recover the Gold Hill tailings. The present amalgamator consists of a shaking table about 2½ to 3 feet in width and 6 feet in length. Mercury pools are placed at regular intervals across the table, about three or four to each table. Immediately above the mercury pools there are three vertical aluminum plates.

The table is covered with rubber, as this proves to be the best material for it. As the sludge is passed over the table the electric current is turned on and the table is made to vibrate. The process did not prove successful, and, after an expenditure of \$8,000, the plant was abandoned.

A pilot plant of this type has been erected at the James Laboratory, Newark, N.J., by Mr. Frank J. Gardner, New York City, in cooperation with Mr. U. S. James. Several batches of low grade ore have been shipped from North Carolina to the plant, and it is reported that the values have been recovered up to 98 percent of that contained in the ore. All types of ores have been tried, the hard ores ground and the softer ores disintegrated by various methods. However, this process did not prove successful on the North Carolina ores.

It is impossible to give any definite information as to the values of the placer deposits in North Carolina. These deposits are usually spotty, of indefinite value and quality, and it is only through careful investigations that the values can be determined. Records show that they were quite variable, ranging from a few cents to as high as \$20 per cubic yard. Generally speaking, however, the values are less than \$1 per cubic yard. In the vicinity of Portis mine, in Nash County, some of the gravel deposits show from 10 to 50 cents per cubic yard, while the saprolites show from \$1.50 to \$12 per cubic yard, with an average of \$2 to \$3. Numerous assays have been made by various companies on the Portis property, which shows an average of better than \$2 per yard.

At the Parker mine, in Stanley County, the placer and saprolite deposits show a gold content from 10 cents to \$2.50 per yard. However, the values are not uniformly distributed, as there seems to be a concentration on the surface from 4 to 6 inches in depth with a further concentration on the bedrock, with little or no values in between.

Saprolite deposits in Montgomery and Randolph Counties show values from 50 cents to \$3 per yard, usually rather spotty, and it is impossible to give the average of the deposits until further prospecting is done. In some sections, however, there are possibilities for commercial production.

In the placer and saprolite deposits the gold is usually fine, although in certain localities, as the Reed, Parker, and Portis mines, some coarse gold is found. Some very fine nuggets have been found at the Reed and Parker mines.

Due to the nature and distribution of the placer deposits in North Carolina, every known method has been used in an attempt to recover the gold from the saprolite materials. These methods included hand panning, sluice boxes, rockers, hydraulicking, log washers, Snodgrass machines, trommels, centrifugal machines, and, in three instances, dredges. A great many of the processes used have been failures, due to the clayey nature of the deposits.

The most successful methods attempted so far on a large scale have been hydraulicking, Snodgrass machines, and trommels. The old reports show that dredging methods attempted on the Catawba, Uharie Rivers, and Fishing Creek proved unsuccessful. Various reasons have been given for the failures of these dredges. The older inhabitants of the above sections state that the companies were unable to secure sufficient properties, others state that the dredges were not able to handle the clayey materials.

In such sections of the State, especially at the Portis and Parker mines, the abundance of plastic clays has made the recovery of the gold an impossibility. Several methods have been tried out unsuccessfully to disintegrate the clays. The clay is so tenacious that, if trommels are used, the gold is so pulverized that it floats out in the clay slimes. The Snodgrass machines and log washers have also proved unsuccessful because the quartz fragments tend to prevent the revolving of the blades within the drums. After the clay has been thoroughly disintegrated by these methods, the gold is worn so fine that it floats out in the slimes and does not come in contact with the amalgamation plates.

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attempted have been failures, due to the inability of the operators to recover the fine gold by straight amalgamation and on English blankets, as the clay, more or less in a colloidal state, coats the plates in such a manner that the gold never comes in contact with them. Also the burlap blankets and English blankets become so covered with the fine clay that the gold floats off in the water.

It appears, from the quoted remarks, that there are several problems which will have to be overcome before any extensive gold mining can be done in the Appalachian States, with any degree of success. Reference is made to the fact that the values are spotty and range from 10 cents per yard to \$20 per yard, but generally average less than \$1 per yard with some of the saprolite averaging between \$2 and \$3 per yard. Further reference is made to the remarks about the technical problems which will have to be solved: (1) The disintegration of the clay; (2) the recovery of the gold from the clay slimes. If these two problems can be solved there are many saprolite deposits in the Southern States which can be worked at a profit.

I am pleased to advise that after a long and trying period of research and development, starting in 1940, excluding the war years, with an expenditure of approximately \$500,000, I have achieved a complete breakthrough on the last two problems.

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Mining machines employing the technique as just described are complicated and very expensive to manufacture. A complete split-water process installation costs \$500,000 for a 500-ton unit, and a 2,000-ton unit would cost \$1 million. Technical management is exacting and requires considerable advanced planning with long-range views. Investment capital mounting into the millions dollars will be required.

In viewing these facts, the problems appear insurmountable with the present \$35 price of gold. Financing in these amounts cannot be arranged for easily unless tremendous potentials in deposits are proven and the general public more enlightened. However, the enactment of bill S. 1273 would immediately stimulate the incentive of the speculative investor. The enactment of this legislation is virtually imperative at this time to make possible the acquisition of capital equipment. With the present price of gold, millions of acres of the saprolite ore deposits are considered submarginal for first-class speculative risks, even though very rich streaks occur quite frequently.

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equipment which produces actual mining values using the split-water process technique is expensive to manufacture and operate. The enactment of bill S. 1273 would stimulate the possibilities for the acquisition of funds for exploration and development work to prove the mining potentials of the mineral deposits.

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The enactment of the present proposed legislation will not only assist gold mined but also will, in effect, assist other related industries. Many of the minerals areas have little or no industry to furnish gainful employment for the people who live there. The proposed legislation is sound and logical. It does not extend any further into the world monetary system than to convince foreign observers that action is being taken to maintain our dollar with ample gold reserves showing the fact that our natural resources are still more than ample to maintain the stability of our country's economy.

Foreign observers are fully aware of the fact that the hard shell of our credit and monetary stability could well be broken by the inconsistent and uncontrollable "do nothing attitude" of the various Central Government departments. Once the backbone of our reserves is depleted to the place where it is too late it would be very hard to recover from that position since one of the most expensive necessities of mining and development work is time and at that point that will be a commodity that cannot be legislated into existence. I therefore urge that every possible effort be made to persuade the present session of Congress to act on these measures.

Chaos will not befall us, as some have expressed, but on the contrary great American industry will start to grow again and bring new economic vigor to many sections of our Nation and new strength to our economy and new investment opportunities for American capital at home—not abroad.

Mr. Chairman, gentlemen, I thank you for this opportunity to express these views. As in the past, I shall continue in my endeavor to bring the gold mining industry to the Appalachian States.

Senator GRUENING. Thank you very much, Mr. Thompson. You have brought some very interesting information to the attention of the committee and some very valuable insights. I find myself in agreement with the views you have expressed on the proposed legislation and your statement that the gold industry, in order to get started, needs financial, technical, and—you also say—academic assistance.

I don't know what you mean by academic assistance. Please explain it.

Mr. THOMPSON. Academic assistance, Mr. Chairman, I think I might illustrate in this respect. I recently returned from New York looking for investment capital and some of the remarks that I heard at that time ranged all the way from it is illegal to own a gold mine, to others said, "Well, I thought the Government had done away with all the gold."

The public is just not informed of the situation.

Senator GRUENING. You mean more information is needed.

Mr. THOMPSON. That is right.

Senator GRUENING. Not just technical aspects.

Mr. THOMPSON. That is right; the public is just not informed as to the problems that have gone on.

Senator GRUENING. Thank you very much, Mr. Thompson.

Mr. Dominick?

Senator DOMINICK. I have just one question, Mr. Thompson.

Have you made any estimate of the comparison between production and consumption on a worldwide basis?

Mr. THOMPSON. Of the gold?

Senator DOMINICK. Yes.

Mr. THOMPSON. I have not prepared statistical figures, Senator, for that. I have dealt more with the current technical aspects of my individual problem because I am working on sort of a very complicated mining technique. But the world consumption and production, though, if it were not for South Africa, I don't think there would be much going on. The United States has practically nothing. I don't think there is an active gold mine any place in the Appalachian Range. There is not, to my knowledge.

Senator DOMINICK. Thank you.

That is all.

Senator GRUENING. Thank you very much.

At this point in the record we will insert a copy of the two bills under consideration and any departmental reports.

(The bills and reports are as follows:)

[S. 100, 88th Cong., 1st sess.]

A BILL To provide for a study by the Secretary of the Interior of the domestic gold mining industry, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in order to more effectively fulfill the objectives of H. Con. Res. 177, Eighty-sixth Congress, adopted September 15, 1959, the Secretary of the Interior shall make a survey of the domestic gold mining industry in order to develop information upon which Congress may adopt remedial action in order to relieve the distressed conditions that exist in that industry.

Sec. 2. The study and survey authorized by this Act shall be accomplished in full cooperation with States in which there are situated mines producing, or capable of producing, gold and shall include but not be limited to (1) an inventory by States of active and inactive gold mines, (2) an estimate by States of the time and cost of reactivating and placing in operating condition inactive mines, (3) a comparison by States of the number of persons employed at gold mines during each ten-year period for the past one hundred years, (4) an estimate by States of the quantity of unmined gold remaining in the ground at both active and inactive mines, (5) the potential for the discovery of new deposits of gold and the prospect for the mining thereof, and (6) a review of the extent to which the United States would be dependent upon foreign sources of gold for industrial and other nonmonetary purposes in the event that domestic sources ceased to be available for these purposes.

Sec. 3. The Secretary of the Interior shall, not later than December 31, 1964, submit to the President for transmittal to the Congress a report on the study authorized by the first section of this Act. The report shall contain all information developed as a result of the study and, in the event the report is not in final form, an estimate of the time necessary for the completion of the study and report.

Sec. 4. Section 21 of title 30, United States Code, is amended to read as follows:

"SEC. 21. In all cases lands valuable for minerals shall be reserved from sale, except as otherwise expressly directed by law. Notwithstanding any other provision of law, no department, agency, instrumentality, or officer of the United States may sell metals, mineral ores, or any article or alloy any of which are primarily valuable by reason of the gold content thereof, to any person within the United States for artistic, commercial, or industrial uses."

Sec. 5. In transmitting to the Congress the final report of the Secretary of the Interior, the President shall include his recommendations as to the best means available, in his opinion, including legislation, if any, necessary to relieve distressed conditions in the domestic gold mining industry.

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., July 12, 1963.

HON. HENRY M. JACKSON,
Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.

DEAR SENATOR JACKSON: Your committee has requested the views of this Department on S. 100, a bill to provide for a study by the Secretary of the Interior of the domestic gold mining industry, and for other purposes.

We recommend against enactment of the bill.

S. 100, if enacted, would direct the Secretary of the Interior to survey the domestic gold mining industry in order to provide information which would assist the Congress in developing legislation to aid the industry. The measure would also prohibit sales of gold by any agency of the Government for industrial uses.

The Department of the Interior has general authority to conduct studies of the type described in section 2 of the bill, and some of the information called for is now available. A report of the scope and depth stipulated in the bill, however, would require a major undertaking to update and supplement existing information. To present a reasonably definitive report to the Congress by December 31, 1964, would necessitate diversions of funds and personnel from other programs to a degree that would do irreparable harm. A study of this magnitude does not seem warranted, and if undertaken, would likely arouse speculation as to the intent of the Government regarding the future value of the dollar.

The Department will shortly issue a publication summarizing the production, history, and geology of the 507 gold mining districts in the United States that have yielded at least 10,000 ounces of gold each. The Department is also carrying on programs of research in extraction, evaluation of ore deposits, and in the application of new scientific techniques in mine planning and operation which yield information useful to the gold mining industries.

As a part of a broad program of stimulating interest in gold mining the Department has added gold to the list of minerals eligible for financial assistance under the minerals exploration program of the Department, and a number of new contracts give evidence of wide interest in gold mining.

The framework of the Area Redevelopment Act is available to such areas as may be suffering economic distress, and the Department has cooperated with the Area Redevelopment Administration in devising programs to aid economic development in mining areas where there is substantial unemployment.

The prohibition against sales by the Government for industrial uses would have to be accompanied by additional provisions of law to enable domestic fabricators of gold to obtain gold from other sources, either by purchase from domestic mines or by importation.

We interpret the intention of section 4 of the measure to require domestic fabricators to buy the production of domestic mines at premium prices. In this event domestic fabricators would lose most of their business to foreign manufacturers unless more stringent import controls were established on products containing gold. In addition, the payment of a premium price to domestic production would give rise to a two-price system for gold which the administration believes would be a threat to the value of the dollar in international markets.

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,

FRANK P. BRIGGS,
Assistant Secretary of the Interior.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., July 12, 1963.

HON. HENRY M. JACKSON,
Chairman, Interior and Insular Affairs Committee,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to Senator Anderson's letter of January 18, 1963, inviting the Bureau of the Budget to comment on S. 100, a bill to provide for a study by the Secretary of the Interior of the domestic gold mining, and for other purposes.

The Treasury Department and the Department of the Interior, in the separate reports they are making to the Senate Interior and Insular Affairs Committee, point out that the implications of enactment of S. 100 are far reaching—affecting not only the domestic gold mining industry but also international confidence in our monetary system. For this reason these agencies oppose enactment of this bill.

The Bureau of the Budget, for the same reason, recommends against the enactment of S. 100.

Sincerely yours,

PHILIP S. HUGHES,
Assistant Director for Legislative Reference.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, July 18, 1963.

HON. HENRY M. JACKSON,
*Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 100, to provide for a study by the Secretary of the Interior of the domestic gold mining industry, and for other reasons.

The proposed legislation would (1) direct the Secretary of the Interior to make a survey of the domestic gold mining industry and to report to the Congress through the President by not later than December 31, 1960 and (2) prohibit the sale by the Government of gold within the United States for artistic, commercial, or industrial uses.

The Treasury Department is opposed to the enactment of the proposed legislation because the uncertainty and speculation with regard to future gold prices which would result from its adoption would tend to destroy confidence in the dollar and to disrupt the stability of our monetary system. Gold is not comparable to other commodities or metals. It is primarily of importance as a monetary standard of value. The dollar is firmly linked to gold. The Treasury accomplishes this by standing ready to purchase and sell gold at the fixed price of \$35 per ounce. The monetary system of the entire free world is hinged to the interconvertibility which we maintain between gold and dollars at that price. The pressures which would be generated in connection with a study of the broad and comprehensive nature envisaged by the bill would undermine confidence in the stability of the Treasury price for gold. This objection is, of course, equally applicable with respect to section 4 of the bill which would prohibit Treasury sales of gold and thereby give rise to fluctuating prices for gold in the United States.

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.

Sincerely yours,

G. D'ANDELOT BELIN, *General Counsel.*

[S. 1273, 88th Cong., 1st Sess.]

A BILL To establish in the Department of the Interior a Gold Procurement and Sales Agency, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Interior shall make a survey of the domestic gold mining industry and determine the price, not to exceed \$105 per troy ounce, required to be paid to domestic producers in order to achieve maximum production of gold from mines in the United States. The result of the survey, together with the Secretary's determination of the price necessary to accomplish the aforementioned objective, shall be reported to the President of the Senate and the Speaker of the House of Representatives not later than December 31, 1963.

SEC. 2. Effective January 1, 1964, there is established in the Department of the Interior the Gold Procurement and Sales Agency which shall be headed by a Director, who shall be appointed by the President of the United States, with the advice and consent of the Senate, and shall receive an annual salary of \$20,000.

SEC. 3. The Gold Procurement and Sales Agency shall, on and after January 1, 1964—

(1) be the only agency authorized to buy gold from domestic producers and sell it for nonmonetary purposes within the United States, its territories and possessions, and the Commonwealth of Puerto Rico;

(2) pay to domestic producers, for all gold mined after December 31, 1963, the price determined by the Secretary of the Interior in accordance with section 1 of this Act;

(3) annually resurvey the domestic gold mining industry to determine whether the price paid to such producers for gold should be modified. The report of the Agency shall be transmitted to the Secretary of the Interior who shall, not later than December 31 of each year, advise Congress of the price he has determined to be necessary to meet the objective of section 1 of this Act. The purchase price of domestically mined gold for the next succeeding calendar year shall be the price as so determined, or \$105 per troy ounce, whichever is less;

(4) sell gold for defense, industrial, professional, artistic, and other nonmonetary uses at a price equivalent to that which was paid for the purchase of gold during the month prior to the sale under the preceding clauses of this section; and

(5) transfer to the Treasury Department any domestically mined gold not disposed of under the preceding clauses; and the Treasury Department shall reimburse the Gold Procurement and Sales Agency at the rate of \$35 per ounce or such other amount as is, at the time of transfer, the monetary value of gold in accordance with applicable statutes and treaties.

SEC. 4. There are hereby authorized to be appropriated such sums as may be necessary for the administration of this Act, including funds for the Gold Procurement and Sales Agency to absorb the difference between the purchase price of domestically mined gold and the sale of any quantities thereof to the Treasury Department at the rate fixed by this Act.

SEC. 5. Nothing contained herein shall be construed to repeal, supersede, or modify existing provisions of law relating to the monetary system of the United States or to interfere with the right of the Treasury Department to obtain gold from sources other than domestic producers.

SEC. 6. The term "domestic" as used in this Act refers to the United States, its territories and possessions, and the Commonwealth of Puerto Rico.

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., July 12, 1963.

HON. HENRY M. JACKSON,
Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.

DEAR SENATOR JACKSON: Your committee has requested the views of this Department on S. 1273, a bill to establish in the Department of the Interior a Gold Procurement and Sales Agency, and for other purposes.

We recommend against enactment of the bill.

S. 1273 provides:

1. That the Secretary of the Interior determine the price, up to \$105 per troy ounce, to be paid domestic producers in order to achieve maximum production of gold from mines in the United States.

2. That an agency be established in the Department of the Interior to buy gold at such price and sell for nonmonetary uses at this price.

3. That the price be redetermined annually.

4. That any excess gold be transferred to the Treasury at \$35 an ounce.

The Department is acutely aware of the difficulties which the domestic gold mining industry is experiencing. We have added gold to the list of metals and minerals for which the Government provides financial assistance to exploration, and this has stimulated additional interest in gold mining.

The Department of the Interior, however, is unable to recommend enactment of S. 1273, although its enactment would undoubtedly create substantial reserves of minable ore and provide incentive for reactivating many mines now closed. Such a provision would immediately give rise to a two-price system for gold, which the administration believes would be a threat to the value of the dollar in international markets.

The enactment of the measure would also give rise to many problems with reference to the industrial uses of gold. In the first place present industrial uses exceed domestic production. In 1962 net industrial domestic consumption was 3 million ounces (\$105 million). Domestic production was short of this by \$51 million. It's possible, of course, that the higher price would curtail consumption enough to balance with some increased production. In fact, unless stringent import controls were established or manufactured products containing gold, domestic producers of gold products would lose most of their business to foreign manufacturers.

Even if the substance of the bill had merit we do not believe that section 2 of the bill, authorizing the establishment of a Gold Procurement and Sales Agency and the appointment of a Director, is a desirable provision; and recommend that it be deleted. The Secretary has full authority to establish the internal organizations needed to administer the functions that would be authorized by the bill.

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,

HARRY B. BUGG,
Assistant Secretary of the Interior.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., July 12, 1963.

HON. HENRY M. JACKSON,
*Chairman, Committee on Interior and Insular Affairs,
U. S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your request for the views of the Bureau of the Budget on S. 1273, a bill "to establish in the Department of the Interior a Gold Procurement and Sales Agency, and for other purposes.

S. 1273 would:

1. Direct the Secretary of the Interior to determine the price, not to exceed \$105 per ounce, to be paid domestic gold producers necessary to achieve maximum gold production from mines in the United States, and

2. Establish a Gold Procurement and Sales Agency in the Department of the Interior which would be the only agency authorized to buy gold from domestic producers and sell it for nonmonetary purposes, both at the price determined above. Further, any gold not sold for these purposes would be sold to the Treasury at its monetary value and the Gold Procurement and Sales Agency would be reimbursed from appropriated funds.

The Interior and Treasury Departments, in separate reports they are making to your committee, recommend against enactment of S. 1273, because of the threat to the value of the dollar in international markets which would result and the possibility that its enactment could be regarded as evidence of an intent to devalue the dollar in the future.

In view of the above, the Bureau of the Budget recommends against enactment of S. 1273.

Sincerely yours,

PHILLIP S. HUGHES,
Assistant Director for Legislative Reference.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, July 18, 1963.

HON. HENRY M. JACKSON,
*Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D. C.*

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 1273, to establish in the Department of the Interior a Gold Procurement and Sales Agency, and for other purposes.

The proposed legislation would provide for the establishment of a Gold Procurement and Sales Agency in the Department of the Interior for the purpose of buying gold from domestic producers and selling it for industrial purposes within the

United States, its territories and possessions and the Commonwealth of Puerto Rico. It would pay to domestic producers a price up to \$105 per ounce for the purpose of achieving maximum production of gold from mines in the United States and would sell gold for nonmonetary uses at the premium price. Any gold not sold for these uses would be sold to the Treasury at \$35 per fine ounce. The difference between the subsidy price and the monetary price would be reimbursed from appropriated funds.

The Treasury Department is opposed to the enactment of legislation which would provide for the establishment of a new price for gold in the United States differing from the established rate of \$35 per fine troy ounce. Gold is not comparable to other commodities or metals. It is primarily of importance as a monetary standard of value. The dollar is firmly linked to gold. The Treasury accomplishes this by standing ready to purchase and sell gold at the fixed price of \$35 per ounce. The monetary system of the entire free world is hinged to the interconvertibility which we maintain between dollars and gold at that price. The adoption of any measures which would involve a change in the price at which the United States purchases gold from domestic producers and sells it to commercial users would undermine confidence in the stability of the Treasury price for gold in international transactions and could be regarded as evidence of an intent to devalue the dollar.

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.

Sincerely yours,

G. D'ANDELOT BELIN, *General Counsel.*

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF EMERGENCY PLANNING,
OFFICE OF THE DIRECTOR,
Washington, D.C., July 15, 1963.

HON. HENRY M. JACKSON,
*Chairman, Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your request for a report on S. 1273, 88th Congress, a bill, to establish in the Department of the Interior a Gold Procurement and Sales Agency, and for other purposes.

The Office of Emergency Planning is responsible for the stockpile of minerals and metals for the purpose of meeting mobilization requirements, and we have reviewed this legislation from the standpoint of that responsibility. Because gold does not present any mobilization problem, we have no basis upon which to support legislation designed to increase domestic gold production. Accordingly, we defer to the views of the departments and agencies more directly concerned with the objectives of S. 1273.

From the standpoint of the administration's program, the Bureau of the Budget advises that it has no objection to the submission of this report.

Sincerely,

EDWARD A. McDERMOTT.

Senator GRUENING. The committee will stand adjourned until further call of the Chair.

(Whereupon, at 11:55 a.m., the committee adjourned, subject to the call of the Chair.)

(Subsequent to the close of the hearing the following statements and communications were filed:)

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

The gold supply of this country and the industry which produces it are today in a grave situation. It is imperative that long overdue corrective action be taken without further delay.

At the very time our Nation stands alarmed at our ebbing gold supply, the ironical fact is that our land holds rich deposits of this precious mineral. It is startling that we face an ever-increasing shutdown of gold mining opera-

tions and a swelling of our unemployment rolls with the names of skilled miners.

The gold mining industry has contributed greatly to the development of our country and, in particular, to my State of California. But that industry can no longer find a way to survive with the sadly outdated and unrealistic price ceiling that is placed on the fruit of its efforts. Today we are asking gold miners to produce one of our most urgently needed commodities at a restricted price-level established 30 years ago.

I am sure that most Members of the Senate remember the early 1930's. Many a family in this country had to, and did, survive on a total income of 25 or 30 cents an hour. It was possible then, but we all know how utterly impossible this would be today.

It was during the days of the 30-cent hourly wage that the present ceiling of \$35 an ounce for gold was established.

I believe there is far too little understanding of the tremendous investments required and the amount of ore that must be mined to produce an ounce of gold. To insist that the gold mining industry produce gold at \$35 an ounce in this day and age is much like insisting that our steel industry produce steel at the early 1930's composite price of \$48 per ton compared to today's price of more than \$140, or that the farm price of beef cattle be limited to \$4 per hundredweight as compared to the current average price of \$21.

The industry finds itself in a situation not of its own making but in one that exists because of action by the Government to establish an artificial price considered necessary in the public interest as a basis for our monetary system. Monetary, not business, policies are slowly and surely forcing the demise of the gold mining industry and the artificial curtailment of our gold supply, which result is contrary to the public interest. Thus, we owe the industry some relief to avoid continuation of a situation which verges on confiscation without compensation.

To get urgently needed action underway I coauthored Senate bill 1273 with Senators Gruening, McGovern, Bartlett, and Mundt.

In holding hearings on S. 1273 and on S. 100, introduced by Senator Dominick of Colorado, we stressed that the scope of inquiry was not to be limited to consideration of these two bills only. Our objective is to find a solution to this dilemma. All interested parties who have any ideas or suggestions about increasing our gold supplies and reopening our gold mines were invited to testify.

During the hearings expert witnesses varied greatly in their testimony about the proper price for gold and how its value should be established. Some sound arguments were advanced for basing the price of gold upon prices which fabricators would be willing to pay under a competitive market condition.

The testimony of the various witnesses who testified convinces me that we have little hope of accomplishing our objective unless we remove the element of administrative discretion and maintain the principle of the free market in any new legislation on gold.

With some modification, S. 1273 can establish such a free market for gold and successfully accomplish the objective of reopening our gold mines and increasing the production and supplies of gold in this country.

I believe the subcommittee can effectively modify S. 1273 to embrace the principle of the free market and make it possible for the gold mining industry to operate at a fair and equitable income without repealing, superseding or modifying existing provisions of law relating to the monetary system of the United States and without interfering with the right of the Treasury to obtain gold from sources other than domestic producers.

I am glad that through these hearings the gold mining industry and other interested parties have had an opportunity to present testimony to the subcommittee. I hope that through these hearings and the work of the subcommittee we can shortly bring a strong piece of legislation to the floor of the Senate and have an effective law passed in this session of the Congress.

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

The members of this subcommittee, and certainly a growing number of other Senators and citizens outside the Nation's gold mining areas, are aware of the alarming decline of the domestic gold mining industry, the economic impact of this decline on areas formerly dependent on revenues from gold processing, and

the threat to the stability of our currency resulting from the steady reduction in our gold supply, which can only lead to the loss of foreign confidence in our ability to maintain a stable monetary system. We can no longer afford any delay in taking remedial action.

Our gold industry has been placed in an economic straitjacket by the rise in living costs, and the costs of labor, machinery, technological development, and all other necessities for the extraction of gold ore, relative to the price of pure gold, which has remained fixed at \$35 an ounce. Our price-cost ratio has been pinched to death, and our gold reserves have dwindled as more and more sources of domestic production have been forced to shut down.

The need for long-term reassessment of our monetary policies is immediate and acute. Such a reassessment will surely be difficult, however, and might well continue to be deferred as long as administrative authorities show unwillingness to come to grips with the problem. This is goldbricking of a serious order. We must, however, act now to prevent, at least, the total disappearance of our gold industry until this reluctance can be overcome. The two items under consideration provide an outline of effective means to temporarily achieve this purpose.

A substantial subsidy to insure continuation of present mining operations, to reactivate old areas of production, and to tap new resources is of first importance. Small mining enterprises badly need aid to meet multiplying expenses caused by rising labor and equipment costs, and by the need to institute new processes to mine lower grade ore. At the very least, the per-ounce sale price of processed gold must be sufficient to guarantee profitable operation under present conditions, and to stimulate the development and application of new techniques. We must, by these means, try to bring about the activation of formerly marginal areas, whose practical potential is rising with the advance of technology. A mining subsidy would not interfere with our monetary policies; it would not mean devaluation of the dollar.

These measures are of the utmost importance to our economy and to the future of our gold industry, which deserves a future as great as its past.

STATEMENT OF HON. GEORGE MCGOVERN, A U.S. SENATOR FROM THE STATE OF
SOUTH DAKOTA

As a Senator from the State of South Dakota, I am very strongly interested in the problems of the gold-mining industry. This industry is one of the most hard pressed in the United States today. Most of the commercial gold mining still being done in the United States is conducted in the Black Hills of South Dakota, and particularly at the Homestake gold mine at Lead, S. Dak. It is truly ironic that in a time when the Nation is confronted with a rapidly diminishing reserve of gold, some of the most highly productive gold mines within our country have been closed. In actual fact, more than 95 percent of the gold mines in the United States have been forced to close in recent years. As my colleague, the senior Senator from South Dakota, expressed it: "No other industry in this country is compelled by law to sell its product at the price which prevailed in 1933, while at the same time it endeavors to conduct its activities and to pay its costs in terms of the steadily increasing inflationary prices which have prevailed in this country since 1933."

While gold production in the United States continued to decline, the world production of gold rose in 1962 for the ninth successive year establishing a new high estimated at 49.5 million ounces. Since the need for gold is clearly urgent, it is imperative that we do something to stimulate gold mining in the United States.

Under the bill before this committee, newly mined domestic gold would be purchased by a new gold procurement agency in the Department of the Interior at a price up to \$105 per troy ounce. The Department would set the price in such a way as to achieve maximum gold production from U.S. mines. Gold needed for defense, industrial, professional, artistic, and other nonmonetary uses would be sold at a price equivalent to that paid the miner. Passage of this bill would end what Senator Gruening has rightly called the "absurd and perilous" situation in gold mining in the United States.

Among the important letters I have received on this bill, Mr. A. G. Roe of Canton, S. Dak., has written that:

"No metal has been as influential in the development of civilization as gold. Yet gold is in trouble today in the United States. According to the Cleveland Trust Business Bulletin of June 25, 1963, we have \$15 billion in gold stocks today—but foreign claims total \$25 billion.

"Surely you must agree that in view of this claim upon our gold everything logical must be done to raise production of gold in the United States. However, gold production is not being encouraged today—it is actually being discriminated against by an antiquated pricing system.

"The price of silver has gone from 27.9 cents per ounce in 1932 to \$1.27 today. Yet the price of gold, established at \$35 per ounce in 1934, has not changed 1 penny. Based on the 1934 cost index, the price of gold today should be \$105 per ounce.

"Gold mines in the United States are not producing up to capability. The Cripple Creek Mine in California closed last year. The U.S. Smelting, Refining & Mining Co. will close its Nome operation this year. The price of \$35 per ounce is unrealistic, and this is shown by the closing of these much-needed industries, which provide jobs as well as gold.

"The need to increase U.S. gold production is very clear. We ask your consideration in the vital matter of raising gold prices to \$105 per ounce as provided in S. 1273, and the matter of depletion allowances as provided in S. 100."

I have also heard from Mr. Earl R. Amundson of the New Era Mining Co. at Spearfish, S. Dak., who advises:

"I think your bill, S. 1273, has the correct approach to the situation as it does not upset the world monetary system. All previous bills have failed because of it. Eventually the world price of gold will increase. The old rule of supply and demand will take care of this in spite of present day thinking of men in government. I refer you to the silver situation and what has happened. It appears to me that with the lesson learned with silver our men in government should at this time be able to see the handwriting on the wall and face up to it. As previously stated S. 1273 is good. It will break the ice."

Finally, I wish to draw the subcommittee's attention to a thoughtful deposition from Mr. Howard Brickel of Rapid City, S. Dak., who submits the following testimony:

STATEMENT OF HOWARD M. BRICKEL

STATE OF SOUTH DAKOTA, *County of Pennington, ss:*

Comes now Howard M. Brickel, who, under oath, deposes and says: That he is the deponeth hereunder, that he is writing only for himself and on his own account, and that the information herewith submitted is, in his mind, true and correct.

The deponeth hereunder states that he has been in the mining business for something in excess of 20 years. That he has interests in mining ground that contains gold, and, further, that for most of this 20 years, little or nothing has been done in and toward the mining of gold because of the imbalance between the sales price of gold and the expense in mining and refining.

That for a period of some 60 days, prior to the date of this deposition, that he has contacted by personal contact, letter, and telephone a considerable number of miners and/or operators who are in the same situation as himself. These persons so contacted reside in the States of South Dakota, Wyoming, Nevada, California, Colorado, New Mexico. Each and every one of those so contacted have a problem very similar to my own, in that the costs of mining compared to the sale of the mineral—gold—extracted is so out of balance that further activity is not economically possible under the present price scale for gold.

There is no shortage of prospective mines. There is no shortage of good gold-bearing placer ground. However, here is exactly the way these operators feel: To continue or to resume operations would accomplish this: the ground would be mined out, the gold extracted, and sold, and no profit for the operator.

Here in the Black Hills (South Dakota) area, there are any number of worthwhile mining (gold) prospects that should be brought into production, and also a large number of previously operated mines that are standing idle; a stark monument to an economic imbalance in the price of this commodity.

In approaching a problem of this kind, it is so often approached on the basis of profit earning alone, and it is a true and realistic approach. Particularly is this true of the miners, the operators, in fact those who benefit directly from the operation of mines. However, and at the same time, I am wondering just

what it would mean to our national economy if 2 million men were taken off relief rolls, off of social security, and gainfully employed in, to us, a new industry: Gold mining. This figure of 2 million was a carefully studied estimate made some 20 or more years ago, at a similar time and circumstance such as this. The figure, I feel, would be even more encouraging today. During this past 60 days that I have been contacting miners, operators, etc., I have received estimates that run as high as 50,000 men gainfully employed in the Black Hills area alone. And this is taking into consideration only those benefited directly. What it would mean to those indirectly benefited such as your small town storekeeper, the factory manufacturing materials and supplies, I have no way of knowing, but it would be enormous.

Also, the question would arise of the extent of the area that would be directly affected by a substantial increase in the price of gold, and for want of a better statement—and this was made to me—every State west of the Mississippi River and Alaska.

The Homestake Mining Co., situated at Lead, S. Dak., presently are mining—better say producing—approximately one-third of the gold mined in the continental United States. Isn't that a blight on our economy? I, personally, know of many areas that will produce gold, and in huge quantities, that could materially change that percentage, and practically every operator and miner that I know of has made a similar statement.

To give an example, here in this city, Rapid City, S. Dak., within the city limits, a stream named Rapid Creek is from time to time mined. An elderly man, panning, right in the heart of the city, has been taking out around \$8 per day, as an average daily panning. What would it do if the price were \$105 per ounce instead of approximately \$35 on his earnings alone, and he is but one of countless thousands that would over night become gainfully employed.

Our President once made some statement such as this: "that 25,000 new jobs had to be found per month." Well, an increase in the price of gold such as outlined in Senate bill 1273 would go a long way to providing that many new jobs for a good many years to come. Naturally, I do not have any figures to show what this would be in additional income tax revenue; however, somewhere there are some figures to at least give a look at this side of the equation. Taking men off of relief, off of social security, putting them to work gainfully is certainly a goal to shoot at, and, last but not least, there would be more gold in the till.

HOWARD M. BRICKEL,
Rapid City, S. Dak.

Subscribed and sworn to before me this 11th day of July 1963.

[SEAL]

GEO. A. BANGS, *Notary Public.*

My commission expires March 1, 1966.

STATEMENT OF ORIS A. MAHAN, FOR MINERS & PROSPECTORS ASSOCIATION

Gentlemen, my name is Oris Mahan. My address is 5111 Eastside Road, Redding, Calif. I am speaking on behalf of the Miners & Prospectors Association of Shasta County.

Much has been said today by wise and learned men and men who, no doubt, are working for the best interest of the domestic gold mining industries. It is with pleasure and great honor that I speak this day with men of such integrity.

Gentlemen, we, the Miners & Prospectors Association feel, as you do, that the domestic mines must be opened again. The closing of the gold mines as well as the other metal mines has signaled the decay and destruction of a great Nation as recorded history has so often stated. The new wealth of a nation comes from the ground in the form of mineral, agricultural products and timber. Remove one or more of these industries from the land, and even the uninformed individual can see the resulting dilemma. Needless to say, the national income goes down, unemployment goes up, tax dollars go down, etc. Surely, Wall Street is aware of this new wealth and knows that the domestic mining industry is the pipeline of this new wealth into the economy of any great nation.

As Congressman Johnson has already stated, "The United States is using more gold today in industry and arts and crafts than it is producing." It is imperative that the mines be opened again and the new blood piped into the economy of this great Nation.

The opening of the gold mines will solve many problems, including those mentioned before, and the one attached herewith, and will give a new look from the Department of the Interior, and President Kennedy's "New Frontier" will move forward.

But it is the Congress of this great Nation that has the greatest responsibility. The work that they do today will have the greatest bearing upon our children, yours and mine, and the children in all walks of life in this land that we call ours. The Congress, of which this committee is part, must and will accept their responsibility and will do their utmost to see that the domestic gold mines are opened soon and that a long-range program is inaugurated so that the domestic mines will stay open for years to come.

THE RESOURCES AGENCY OF CALIFORNIA,
State Capitol, Sacramento, July 19, 1963.

HON. ERNEST GRUENING,
Chairman, Senate Subcommittee on Materials, and Fuels of the Senate Interior and Insular Affairs Committee, Senate Office Building, Washington, D.C.

DEAR SENATOR GRUENING: California is vitally interested in reestablishing its gold mining industry which historically has contributed so much to the economy and general welfare of the United States. As you know, current national policy has created a situation which makes gold mining uneconomical for most operators.

In S. 100 and S. 1273, as well as in H.R. 4491, we see an equitable solution to the problem in the basic step of separating management of commodity use of gold from that of monetary gold. The method of operating the plan through the Gold Procurement and Sales Agency appears practical, as set forth in the above bills.

We are attaching a review of California's gold production to indicate the urgent need for adoption of new national policy in this field.

Respectfully submitted.

HUGO FISHER, *Administrator.*

[Attachment]

GOLD IN CALIFORNIA

(By William B. Clark, Geologist, California Division of Mines and Geology, Sacramento, July 10, 1963)

California has been the source of nearly 106 million ounces of gold valued at approximately \$2,415 million. This total is far greater than that for any other single State in the Union and represents about 35 percent of the total U.S. production. Although world gold production has increased in recent years, chiefly because of increased output in the Union of South Africa and the Soviet Union, U.S. production, particularly that in California has decreased greatly. In 1962, California's production was 106,272 fine ounces valued at \$3,719,520. This compares with production figures of \$4,329,000 in 1960; \$8,810,000 in 1955; \$14,424,000 in 1950; and \$50,948,000 in 1940.

This diminishing trend of gold production is attributable to several things, the most important being a fixed price for domestically-mined gold (\$35 per fine Troy ounce) coupled with increased costs for labor and supplies. Other factors are the expense of reconditioning shutdown mines, the depletion of workable deposits especially dredging ground, increased real estates values in some of the gold districts, and the inundation of some gold-bearing areas by reservoirs.

At the present time there is only one major gold producer in the State. This is the Yuba Mining Division of Yuba Consolidated Industries which operates three large floating bucket-line dredges on the lower Yuba River a few miles east of Marysville. The mines at Alleghany, the other main commercial source of gold in the State for the past few years, have gradually curtailed operations; in 1962 they were the source of less than \$300,000. However, several of the mines in this district, notably the Brush Creek and Sixteen-to-One, have recently received U.S. Government loans to do further development work. Smaller amounts of gold are recovered from a few intermittently active lode and hydraulic mines and dragline dredges in the Sierra Nevada, Klamath Mountains, and the desert regions of southern California. In addition, some byproduct gold is recovered from several sand and gravel plants and from a few tungsten, copper, and lead-zinc mines. There are numerous weekend prospectors, "pocket" miners,

snipers, and skin divers, but the production from these is extremely small and has not offset the gradual decline from commercial gold mining.

All of the large underground mines at such places as Jackson, Plymouth, Sutter Creek, Jamestown, Placerville, Bagby, Georgetown, Angels Camp, Grass Valley, Nevada City, Mojave, Randsburg, and French Gulch are idle. Most have had their surface plants dismantled. The last active major lode-mining operations in California were the Empire-Star and Idaho-Maryland groups at Grass Valley, which were shut down in 1956, and the Central Eureka mine at Sutter Creek which was shut down in 1953. The last large dredge of the Natomas Co. at the extensive Folsom field east of Sacramento ceased operations early in 1962.

STATEMENT OF JAMES K. CROWDY, PRESIDENT, NEW YORK-ALASKA GOLD DREDGING CORP., NYAC, ALASKA; VICE PRESIDENT, ALASKA MINERS ASSOCIATION

At the hearings last year, in connection with Senate Joint Resolution 44, I had the privilege of appearing before this committee and I regret that circumstances make it impossible for me to be present again for the current hearings on S. 1273.

Since the hearings in 1962 our gold position has suffered further deterioration and there is every indication that this situation is going to continue, in spite of the various stopgap devices being tried by the Treasury Department. I know all of you gentlemen are familiar with the tremendous discrepancy between our free reserves, as opposed to our huge commitments. The term "free reserves" is, I am afraid, somewhat of a misnomer.

Domestic gold production is now only about 50 percent of our domestic non-monetary requirements. We are therefore not only losing the benefit of this insignificant production but in addition we are bleeding the Treasury of further gold stocks which we can ill afford to lose.

No gold operator seriously contends that the passage of a bonus bill will increase production to a point where we are able to offset completely the drain at the present rate. We do feel, however, that if we are given a reasonable incentive we can, within a few years, equal or surpass our prewar production figures. The addition of some \$200 million per year to our gold reserves will at least reduce the depletion rate.

S. 1273 seems to be a reasonable approach to part of the problem of gold reserves and should provide sufficient stimulus to the mining industry, so that every effort would be made to increase production as rapidly and completely as possible.

It would probably take about 3 years to bring production up to domestic consumption, and from there the increase would be accelerated. During part of this 3-year period, however, the bonus would be largely self-supporting, due to the difference between the Treasury price of \$35 and the selling price to domestic users at the bonus rate.

If domestic users were allowed to buy from sources outside the United States the profit from sales during the 3-year period would be lost, but on the other hand our Treasury gold stocks would benefit. It is therefore a matter of choosing the most desirable approach.

Domestic consumers have been, for the past 39 years, in the unique position of being able to purchase their raw materials without any price increase. On the other hand the producers of gold have been unable to pass on any of their greatly increased costs to the purchaser. At the present time the U.S. Treasury is simply acting as an unpaid purchasing agent for the domestic consumers, and further making up the deficit caused by the forced reduction in domestic mining. This can hardly be termed equitable treatment as between producer and consumer.

It gets increasingly difficult for anyone to understand the attitude of the administration toward gold. Do we intend to continue using gold as a medium of exchange and a currency backing? Are we going to repudiate our gold backing and disclaim any further interest in gold, choosing instead some form of managed currency? Are we going to sit idly by until such time as we are forced to take some positive steps, such as revaluation?

We want gold apparently, and we need it apparently, but so far as our domestic industry is concerned, we do nothing about it. I am sure the Treasury Department would be the first to say "Yes, we'd like to have more production," but they raise their voices in horror everytime something constructive is

proposed to achieve this end. I trust this will not be the case so far as S. 1273 is concerned.

This bill is a constructive step forward and has the merit of placing the gold-mining industry on a sound basis. Prospecting will increase and new mines come into production. Financing will be more readily obtained and the entire industry will be revitalized. New prospecting and mining methods will be used and now unknown deposits will be discovered to add to our country's wealth.

If the administration again objects and no further relief is forthcoming, gold mining as such will simply cease. We will no longer produce our most important strategic metal—and it is a strategic metal and has been for several thousand years. Furthermore, in spite of the weird theories propounded by some of our new crop of bright young men, it will continue to be a strategic metal for some time to come.

In closing I want to express the appreciation of the Alaskan gold-mining industry particularly, for the hard work, foresight, and consideration which has been displayed by the chairman and members of this committee in their efforts to help an ailing and unfairly treated industry.

STATEMENT OF E. WENDELL SCHROEDER, FORMER ADMINISTRATIVE ASSISTANT, WAR PRODUCTION BOARD, BUENA VISTA, COLO.

With reference to the gold crisis it should be crystal clear that there is something very wrong with an administrative approach which permits gold losses and refuses at the same time to encourage the gold-mining industry in any manner whatsoever. The obvious conclusion to be drawn from such a policy is that a goldless dollar is the eventual goal of sinister planners in high places, and that, further, in the developing financial chaos a dictatorship will be imposed to control runaway inflation, thus making the now creeping loss of our liberties official and total.

I have made an editorial suggestion a while back that the Treasury set up a separate blocked gold account depositing newly mined and subsidized U.S. gold in this account and thus evidencing determination to back the dollar with solid substance. This would deter foreign nations from starting a run on remaining gold in Fort Knox. The steadfast determination to refuse U.S. gold producers fair treatment in the production of new gold has caused, even more than the balance-of-payments problem, a loss of confidence in the long-term value of the dollar and hastened conversion of huge foreign dollar balances into gold.

If something is not done shortly to remedy this situation it can be safely assumed that guns, atoms, dictatorship, and bankruptcy will be the great enforcers and levelers of our liberties.

BEST MINES CO., INC.,
Downieville-Sierra County, Calif., July 11, 1963.

Senator ERNEST GRUENING,
Chairman, Subcommittee on Minerals, Materials, and Fuels, Senate Interior Committee, U.S. Senate, Washington, D.C.

You are to be congratulated upon S. 1273 to establish a gold procurement and sales agency. I would like to submit the following comments for consideration of your subcommittee hearings on July 15, 16, and 17. Certainly the one sure way to get more gold is to produce it despite all theory to the contrary. Regardless of the testimony of Robert V. Roosa, Under Secretary of Treasury, before your subcommittee on June 8, 1962 (p. 204) "Gold is special because it is the monetary metal and is different. In our view in the United States it is not a commodity." The U.S. Treasury Department has sold over \$1½ billion worth of its monetary gold into the commodity market since the beginning of World War II for commercial, artistic, and professional use at \$35 per ounce. And regardless of his testimony that the United States must maintain a single price for gold, this commodity market embraces a multitude of prices for gold from tooth repairs to jewelry and artistic objects. Your bill S. 1273 establishes no more prices for gold as a commodity than already exist. It is categorically divorced from the international monetary picture and surely it could not hurt the dollar to eliminate the present commercial drainage of monetary gold that backs the dollar.

The enactment of such a measure would eliminate the present discrimination against the American gold miner by giving him a just return for his product, it would furnish the commercial users with gold at a fair price, and it would add gold to the dollar reserves at the monetary price rather than deplete them by industrial consumption.

Such a proposal is not an overall answer to our complex international gold problem. However, it is an interim program that will greatly benefit our economy while the main problem is being resolved. It is not an incentive plan that ever will call on any sizable Government subsidization or for that matter any subsidization at all unless or until the domestic gold mines can achieve sufficient production to furnish an amount of gold above that which is required by commercial use. At the present time in considering the deplorable state of the American gold-mining industry, this is not foreseeable at least for several years if at all mainly because of the rapidly increasing demand for more gold especially in the defense and space programs.

Although the economic benefits from the reopening of the domestic gold mines cannot be precisely anticipated, it is beyond doubt that the results would be a great stimulus to our gross national productivity not only by the employment of thousands of men directly in the mines, but also by the provision of machinery, equipment, and supplies to operate them, not to mention the rebuilding of communities to service the growth that always springs up from the operation of mines.

It is realized Congressmen are busy people with hundreds upon hundreds of bills to consider each year and as a consequence sometimes miss or misunderstand many good ones. This is particularly true of gold bills because so many have been sidetracked in the past that they now seem to be considered as perennial jokes among many Members of both Houses. However the unswerving pressure of the U.S. gold situation and the soundness of S. 1273 to provide the nonmonetary domestic needs for gold by the domestic production of gold without trespassing upon its monetary status should bring all Congressmen to serious consideration.

Respectfully submitted.

L. L. HUELSDONK, *Vice President.*

MARYSVILLE, MONT., July 14, 1963.

HON. SENATOR ERNEST GRUENING,
*Chairman, Senate Interior Mining Subcommittee,
Senate Building, Washington, D.C.*

GENTLEMEN: I am very sorry that I cannot appear at this time before your honorable committee and personally state my views on the gold-mining situation; however I would like this letter placed in evidence in the record.

Profession:—I am a registered mining engineer in the state of Montana and have been engaged in my profession since 1904. At the present time I am a consulting engineer and geologist.

Education:—Bachelor of science, graduated cum laude 1904, Harvard in mining and metallurgy.

Experience:—I have been engaged in mining since 1904 and have been manager of mines for several of the major mining companies and have operated mines in New Jersey, Vermont, Mexico, Cuba, Canada, Utah, Arizona, New Mexico, and New York State. Since 1938, I have devoted myself mainly to gold mining in our Western States. I was the principal owner and operator of a gold producer in Idaho and operator of the largest underground gold mine in Montana (now forced to shut down because the price of gold will not permit operations). This is the famous Drumlummon mine at Marysville, Mont. Marysville had nearly 10,000 people, 2 railroads, newspaper, banks, department stores, etc. Now the rails are gone, the banks no longer here, the newspaper gone, and the population down from thousands to 45 people.

At present I own 40 mining claims here at Marysville and am doing some diamond drilling and other work on them getting them ready to open in a large way if the price of gold ever gets high enough to justify.

Price of gold in relation to operating costs:—The price of gold was \$20.67 ounce from 1849 until 1934. During that period wages ran from \$1 per day for 12 hours work for a miner up to \$5 per day by 1934 for 8 hours. Then the price was raised to \$35 and wages gradually raised to \$7 for 8 hours by 1942

and to \$8.50 by the end of the World War II, since then they have continued to rise until now a good miner gets \$25 per 8 hours and if he works on contract he will make \$35 to \$40 per 8 hours.

In 1940 mine timber cost \$15 per thousand, now \$80 per thousand. Steel grinding balls for the mill cost \$40 per ton in 1940, now \$225 per ton. All other prices are up in proportion and while we used to mine and mill gold ores for \$2.50 up to \$4.50 per ton, the same deposit to mine and mill today has to have \$20 to \$25 ore to even consider touching it at \$35 gold. As a fair average, gold-mining costs are today five times as high as they were before 1940 for the average western gold mine. The result is they are all shut down and most of the gold-mining companies out of business.

In about 1938 and before there were 112 gold-mining companies that had active accounts with the stores in Helena, Mont. These mines were in the surrounding area from a few miles away up to 50 or even 100 miles. They employed thousands of men. Today these mines are all closed down and as far as I know there is only one gold property operating in this State and it can only operate because it has enough other metals such as lead and silver in the ore to materially help pay the bills.

Employment.—There are 30 areas in Montana that have been important gold producers such as Marysville, Philipsbury, Virginia City, Banock, Kendall, Zortman, Basin, Gould, Lincoln, Elkhorn, Helena, Blackfoot City, Gold Creek, Radersburg, Jardine, Georgetown, Granite Peak, Libby, Troy, Deer Lodge, Rimini, Cook City, Park, Hassel, York, Twin Bridges, Stemple, Argenta, Montana City, Diamond City, and there are also many new areas that could be opened up if the price of gold was reasonable so that the operator could get enough for the gold to pay his costs.

If the price of gold to the American miner was \$105 per ounce, the gold mines in this State could and probably would give employment to 5,000 or more men, and that would in turn give employment to as many more in the stores, gasoline service station, etc., throughout the State. In all the States like Alaska, California, Colorado, Idaho, Montana, North and South Dakota, Oregon, Nevada, Utah, Washington, Wyoming, etc., it would give employment to 50,000 men in the mines and as many more indirectly in the service industries.

In addition to the gold mines themselves, most of our western ores of lead and copper carry gold in smaller amounts. A rise in gold price would be a very great help to our base metal industry.

Reopening of our gold mines.—If the American gold miner received a subsidy of at least \$70 per ounce and also the regular \$35 in addition, there would be a great stampede to reopen the present closed gold mines and great wave of prospecting for new ones.

Most of our western gold deposits where the ore was exposed on the surface have been prospected before World War I, but these outcrops were exposed by nature by erosion first and probably not over 10 percent of the gold deposits in our Western States have been exposed by nature. There is at least five times as much gold ore perhaps nine times as much gold ore still to be found by proper geological study and mine exploration work as all the gold produced in these United States in the past.

At present the Government will assist to the extent of 50 percent in the cost of exploration for gold but this percentage is too low and should be raised to at least 80 percent. This assistance is a loan payable by a 5 percent royalty on production. There is a tremendous gap between exploring for gold such as diamond drilling and sinking shafts, running drifts and raises and getting the mine in shape to produce, then building a mill to recover the gold from the ore. The Government should go all the way with an 80-percent loan to get the mine on its feet and putting out gold.

Some gold mines in the past have been what would be classed as small business as compared to iron or copper mines.

I would like to see this continued and not to have gold mines just one of the big company operations.

Our gold mines today are in the same condition as the manufacturing of buggy whips. It is a dead industry in the United States. If we want to keep our dollar backed by gold we must make some effort to produce gold in our country.

My suggestion would be a subsidy on American-produced gold of \$70 plus the \$35 per ounce, and this should be paid by the Department of the Interior so the Treasury Department would not be mixed up in it and have this subsidy

considered the devaluation of the dollar, and financial loan assistance given the gold mines to not only explore good geological looking prospects to develop a mine, but this assistance go all the way through to getting the mine into production, and I suggest the assistance be 80 percent of the cost and be a loan against the mine repayable out of the gold produced at 10 to 12 percent of the gold production. These loans should, of course, be granted by the Bureau of Mines and approved by them under the present branch called the Office of Mineral Exploration.

Respectfully submitted.

WILLIAM ROGERS WADE.

CULDESAC, IDAHO, July 9, 1963.

Senator ERNEST GRUENING,
Chairman, Minerals, Materials and Fuels Subcommittee,
U.S. Senate Office Building,
Washington, D.C.

DEAR SENATOR: Will you please submit this statement to the gold hearing for July 15, 1963?

I recommend that, by act of Congress our Government should go back to a full gold standard to back our currency.

That by act of Congress they shall usurp their power to issue the coinage of gold.

That a law be passed to stop the U.S. Government from selling gold to industrial users.

That a law be passed to abolish the restrictions on ownership of gold by U.S. citizens.

That a law be passed to declare the gold-mining industry is in a state of emergency and that a price of \$105 an ounce for gold is essential to start the operation of thousands of gold mines in the United States and Alaska. The reason: Since War Measure Order L-208 in 1942 completely stopped most gold mining in the United States and the adverse conditions such as high cost of operation and the high cost of trying to build up an abandoned mine that has deteriorated beyond repair will require a substantial price for gold.

There is no question at all on the gold potential in our Nation. Just give us a chance to mine and watch our economy grow.

Sincerely,

Mrs. ERNEST BUTLER.

SECTION II
DOMESTIC GOLD PRODUCTION

WEDNESDAY, OCTOBER 23, 1963

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 10:05 a.m., in room 3110, New Senate Office Building, Senator Ernest Gruening presiding.

Present: Senators Gruening and Mechem.

Senator GRUENING. The meeting will please come to order.

This is an open, public hearing, by the Minerals, Materials, and Fuels Subcommittee of the Senate Interior Committee on S. 2125, a measure sponsored by a bipartisan group of Senators to revitalize our once great and prosperous domestic gold mining industry.

Sponsors of the measure, in addition to myself, are my colleague from Alaska, Bob Bartlett; the Senator from Nevada, Alan Bible; the ranking minority member of the Interior Committee and the Republican whip of the Senate, Thomas H. Kuchel from California; and the distinguished junior Senator from Montana, Lee Metcalf.

I will direct that the text of the bill, together with any reports the committee may receive on it, be printed at the conclusion of the oral testimony.

S. 2125 offers a new approach to the very serious and very long-standing problem of the decline of American gold mining. For years we who are concerned with our country's supply of gold and with the state of our gold mining industry, have been trying to overcome by legislation the effects of several actions by the executive branch that have brought about the present situation. These legislative approaches have taken two courses: One is to increase the Government-fixed price of gold from its present level of \$35 an ounce to more realistic levels of \$70 or \$105 an ounce. The other approach has been to curtail all industrial and commercial uses of domestic gold, thus increasing our national supply.

Both of these solutions have currently met with adamant opposition on the part of the administrative agencies, regardless of whether the Republicans or the Democrats are in control. The insistently repeated argument has been that any attempt on our part to ameliorate the condition of the American gold miner by increasing the price the American Government would pay to him would somehow upset the entire international financial appletart; that is, if the American Treasury were to pay an American gold miner \$70 an ounce for his

American gold, bankers in Switzerland and in England and elsewhere would become upset and might demand payment in gold for the dollars they hold. An American cannot of course get gold for his dollars, but a Swiss banker or an English banker can and does get gold for his dollars.

The first 3 days of these hearings were concerned with S. 1273 and S. 100. The first of these measures would authorize incentive payments, or subsidies, of up to \$105 an ounce for domestic gold. The other bill would prevent nonmonetary uses of gold pending a study of the entire situation.

Both of these measures met with the unqualified opposition of the Department of the Treasury, which set the pace for the adamantly adverse position of the Departments of the Interior, Commerce, and other administrative agencies.

S. 2125, as I say, offers a new approach. In this bill we do not mention the word "price" which seems to be such a naughty word in international monetary circles where gold is concerned. Rather, S. 2125 tries to compensate gold miners for the tremendous increases in costs that have been incurred during the past 20 years and more.

It would authorize payments based on the difference in the cost of production of gold as it was in 1940, our peak year for domestic gold production of recent times, and present-day costs of production. As I say, the word "price" is not mentioned and, therefore, it is difficult to see how S. 2125 could have even a remote effect upon bankers in Switzerland and elsewhere overseas.

Because of this fact, namely, that it is a cost-of-production bill which would be administered by the Secretary of the Interior for the benefit of American gold miners, and has no relation to the monetary aspects of gold, the subcommittee did not believe it necessary to consult Treasury on the matter.

I repeat, it is strictly a domestic matter, an industrial matter relating to gold as a mineral and not as a medium of financial exchange. Since the Secretary of the Interior is to administer this domestic program, we referred the measure only to the Department of the Interior for report and comment. The measure has been before the Interior Department for some 6 weeks or more, but as yet the subcommittee has not received any reports on it. At this point, without objection, I will insert in the record an exchange of correspondence between the Secretary of the Interior, Stewart L. Udall, and myself as chairman of the Subcommittee on Minerals, Materials, and Fuels. In fact, I shall read the exchange.

On October 17, 1963, I received the following letter from the Secretary of the Interior, which reads as follows:

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., October 17, 1963.

HON. ERNEST GRUENING,
Chairman, Subcommittee on Minerals, Materials, and Fuels,
U.S. Senate, Washington, D.C.

DEAR SENATOR GRUENING: Thank you for your invitation of October 10, 1963, to appear before the Minerals, Materials, and Fuels Subcommittee on S. 2125, a bill to revitalize the American gold mining industry.

As you are aware, legislation affecting gold is primarily the concern of the Department of the Treasury. Therefore, Interior defers to Treasury on that subject. However, I am happy to send an official from this Department who

is knowledgeable in the mining and technical aspects of gold. Mr. Charles W. Merrill, Chief, Division of Minerals, U.S. Bureau of Mines is available at the convenience of the committee for such assistance as he may be able to give.

Sincerely yours,

STEWART L. UDALL,
Secretary of the Interior.

And on October 18, the next day, I replied as follows:

U. S. SENATE,
Washington, D.C., October 18, 1963.

HON. STEWART L. UDALL,
Secretary of Interior, Department of Interior,
Washington D.C.

DEAR MR. SECRETARY: Thank you for your letter of October 17 informing me that Mr. Charles W. Merrill, of the Bureau of Mines, has been assigned the responsibility of representing the Department of the Interior at the hearings on S. 2125, the bill I introduced to assist the domestic gold mining industry.

I have noted with amazement your statement of deference to the Treasury Department of responsibility for the welfare of the gold mining industry. This statement with respect to your position on S. 2125 is surprising to me because I cannot imagine why the Secretary of the Treasury should be concerned with its provisions, since the Secretary of the Interior certainly will be responsible for administering the legislation if it is enacted and it has nothing to do with monetary affairs. It considers gold as a mineral and its mining, and therefore, is the concern of the Interior Department.

I have heard that you are a great admirer of one of your predecessors, Harold L. Ickes. I was not an admirer of his after I got to know him, but he always did stand up for the prerogatives and responsibilities of the Interior Department. He would never have abdicated these to any other Department. In this respect if in no others I wish you would emulate him.

This bill is carefully designed for the sole purpose of aiding the domestic gold miners. Its enactment would make no change whatever in the price of gold. Its provisions in no way affect monetary policy of the United States.

Therefore, as it is the Department of the Interior, of all agencies, that is charged with Government policies and programs affecting the gold mining industry, I would think your Department would make the strongest possible representation in its favor at the hearings on S. 2125 next Wednesday and Thursday.

Cordially yours,

ERNEST GRUENING.

I am happy to report that possibly in consequence of this correspondence, I have had several long telephone conversations with Secretary Udall and the result is that there will not today be an adverse report from the Interior Department. There will be, for the time being, no report whatever and it is agreed that the matter will be studied, the new aspects fully considered, and an effort to be made to see whether approval cannot be worked out along these or similar lines.

We have a number of letters to be included in the record, some of which will be discussed:

A letter from the Honorable William A. Egan, Governor of Alaska;

A letter, followed by a statement, from Henry L. Day, president of Day Mines of Wallace, Idaho, who makes a number of constructive suggestions as to amendments which should be fully considered;

A letter from Robert S. Palmer, manager of the Colorado Mining Association;

A telegram from Warren S. Moore, Duluth, Minn.;

A telegram from Charles W. Kidd, vice president of the National Bank of Alaska;

A telegram from the Republic News Miner, Republic, Wash. ;

A telegram from Albert Parks, president of the Mount Parker Mine;

A report prepared by the Legislative Reference Service on gold mining subsidy programs in Canada and Australia ;

A letter from William H. Hax of New York, a former Montana gold miner ;

A statement of Donald H. McLaughlin, chairman of the board, Homestake Mining Co. ;

A letter from E. C. Latchem, president, Salmon River Mines Co., California ; and

A letter from P. Irving Grinberg, executive vice chairman, Jewelers Vigilance Committee, Inc.

These letters are universally in favor of this legislation and as I said, some of them have some very useful and constructive suggestions as to amendments which should be fully considered, possibly at this open hearing and subsequently in executive session. They will be printed at the end of the oral discussion on this measure after the bill.

We are fortunate in having a number of very distinguished witnesses here and No. 1 among them is my good friend, Bob Bartlett, who has been, himself, a gold miner and has proved himself a consistent friend of the gold mining industry, not only in Alaska but elsewhere.

Senator Bartlett, we are happy to have you here.

Proceed in whatever way you think best.

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

Senator BARTLETT. Thank you, Mr. Chairman and Senator Mechem. I am proud to be a cosponsor of this bill.

You, Mr. Chairman, referred to the fact that no report was asked of the Treasury Department. Notwithstanding, I had fully expected that already the Treasury Department, on its own motion, would have submitted an adverse report.

Senator GRUENING. May I interrupt by saying your suspicion is fully validated in that the Treasury has already orally expressed its opposition to this legislation.

Senator BARTLETT. This is not surprising, but that it has not done so—

Senator GRUENING. On the same specious grounds on which it opposed previous efforts.

Senator BARTLETT. Nevertheless, the fact that this opposition is not recorded in written form is, to my mind, a notable step forward.

First, Mr. Chairman, I should like to say for the record that the gold industry owes many thanks to you for your attempts to do something about an industry which has declined and languished by edict of Government.

You have done much prospecting, you have sunk many holes, and bye and bye and eventually, and before too long, I trust, you are going to hit bedrock with pay dirt.

I want to congratulate you, therefore, Mr. Chairman, and the members of the subcommittee, for your perseverance, for your determina-

tion to find an acceptable and realistic program to assist the domestic gold mining industry.

No industry, in my judgment, is more entitled to such assistance. This industry uniquely was substantially put out of business on account of the policies of the Federal Government.

The subcommittee has, it is recorded, met many times over the years as it has continued its search for acceptable remedies. I personally have appeared before you many times to offer my thoughts on the problem, my suggestions on directions which the search might take, and always before and always in the future, my encouragement.

Today you are here and I am here to discuss S. 2125. This bill represents, I believe, an approach to the problem which should be acceptable to all concerned—even the Treasury.

What should be and what will be are two entirely different things.

It is not necessary at this late date to recount what has happened to the domestic gold mining industry since 1934. It is a sorry story and we know it well. The following figures recount it better than words can tell.

In 1940, the United States produced 4,870,000 ounces of new gold; in 1961 the United States produced only 1,526,757 ounces.

In 1940 your State and my State, Alaska, produced 850,000 ounces of new gold; in 1961, 114,000 ounces.

In 1940 the gold mining industry of Alaska employed 4,000 men; in 1962, 500 men.

As a postscript, I must say that the 1961 figures will be revealed as huge to those which will be recorded for 1963 and the years thereafter, because the principal gold mining company operating in Alaska is substantially out of business now at Nome and at Fairbanks.

What has happened in the United States domestically must be compared with what has been happening to gold production abroad. In 1957, the Republic of South Africa produced 17 million ounces of gold; in 1962, the Republic produced over 24 million ounces.

Last year America's domestic gold production was not even sufficient to supply the needs of America's domestic industrial gold market. That is shocking. That is a pity. That should not be allowed to occur. American new gold supplied but half of the industrial gold demand. The rest came from Government stockpiles and imports. And this at the very time when we are trying to increase our supply of gold.

This is the sorry state of the industry. We all know what has kept it depressed. Since 1934 the costs of production have risen enormously. Labor, transport, and equipment cost two to three times what they cost in 1934.

Everything has gone up—wages, food, metal prices—everything but the price of gold. The price of gold remains unchanged since 1934 at \$35 an ounce.

For close to 30 years America's domestic gold producers, as the result of Government policies, and as a result of Government policies only, have subsidized commercial purchasers of gold, and bankers and financiers. I do not believe that this continued support of one sector of our economy at the expense of another is justified, and never has been.

It is national policy that the price of gold remains at \$35 an ounce. This magic price, plucked from the air in 1934, is now tied irrevocably with the value of our dollar. The Department of the Treasury has told us, time and time and time again, that any across-the-board increase in the price of gold will be taken by the bankers of the world to be a devaluation of the dollar. If such a thought had not occurred to them before, Treasury's obsession with the idea has certainly now penetrated the mind of even the most unwilling-to-be-converted-to-the-idea banker.

Treasury has also maintained, for as many years, that the product of the domestic mining industry known as gold and the use of this product, gold, as a means of exchange and a measure of value are inseparable and indivisible. This is like saying that making baseballs is the same thing as hitting them with a bat.

Proposals repeatedly have been made which would increase the price paid miners for their base product but which would not increase the monetary value of gold—in other words, subsidize the producer for his product, yet not alter the value of the product as a means of exchange. This is a distinction which Treasury, mistakenly, I believe, refuses to see.

It has been the policy of our Government ever since 1934, in good times, in bad, in times of gold inflow and outflow, in times when the dollar as a currency was stronger than any other currency has ever been, that the national interest made it impossible to assist the domestic gold industry. This policy may or may not have benefited the whole of our Nation. If it did so, it did at the expense of one small sector—the producer—to the great benefit of another sector—the commercial gold purchaser, the buyer of gold for jewelry, religious articles, dental, and industrial needs.

The bill before us today, S. 2125, offers hope of a way out. I plead with the Treasury, and with every other Government department concerned, notably, as the chairman has indicated, Interior—do not reject this bill out of hand. It offers assistance to U.S. gold mines and it does not, in any real or meaningful sense, affect the price of the final product.

S. 2125 deals only with production costs. It states as the will of Congress that the domestic gold mining industry should be aided and restored to profitable operation. It states that the miner shall be compensated for the increase in his cost of production today as compared with 1940.

The domestic miner will be assisted in his production costs. The program will be operated by the Department of the Interior. It will be completely, totally, absolutely separate from the gold purchasing and selling operations of the Department of the Treasury.

In evaluating this proposal there are two questions which must be asked: (1) Will it affect the value of gold, the stability of the dollar? I do not believe so. This bill effectively separates the value of the product from the cost of its production. (2) Should it be the policy of the Congress, is it in the interest of the Nation, to assist the domestic gold industry? I believe the answer to this is "Yes."

For many years, in a period of general economic expansion and boom, our gold industry has lived a life of severe extended depression. It has done so entirely because of Government regulation. Our Gov-

ernment has in a systematic manner driven all but the most hard-headed hard-rock and placer miner out of business. It is time, surely, Mr. Chairman, that help and encouragement be given. America has vast untapped gold resources. Gold is a useful thing to have. Let us get at it.

Thank you very much.

Senator GRUENING. Thank you very much, Senator Bartlett, for a very effective presentation which is in line with your previous strong and effective espousal of aid to the gold mining industry.

I wonder whether I could ask you a question which I put based on your long experience in government; not merely nearly 5 years in the Senate, but 14 years as our voteless Delegate in the House of Representatives and prior to that as Secretary of Alaska and prior to that as Secretary to our former able Delegate, Anthony Dimond.

Has it been your experience that invariably through the years every department of Government reports uniformly on measures and that they all follow the lead of one agency, like sheep, or do they occasionally express their own views based upon their own responsibilities?

Senator BARTLETT. The former.

Senator GRUENING. You say they follow others like sheep?

Senator BARTLETT. Yes.

Senator GRUENING. Well, now, I have a contemporary experience where that was not true. I recently had a bill which was designed to make the words "FHA-insured" applicable in housing not merely to the security of the lender but to assure the home buyer that he would get a satisfactory product.

We held a hearing before the Subcommittee on Housing of the Banking and Currency Committee and we found that this legislation was opposed by the Treasury Department.

The Treasury Department, in effect, said, although it did not know much about the subject—which invoked the remark from Senator Clark, "Why did they report on it if they did not know much about it?"—that they thought it was unthinkable to deviate from the prescribed and established policy of merely having the lender insured to try to guarantee the homeowner that he would get a satisfactory product.

But the housing authorities reported favorably on it, as did, indeed, the Bureau of the Budget. So just within a very few days, we have had a happy example where two Government agencies are in opposition. And I am glad to say that the agency which has most concern with this—the Housing Agency—that Agency's viewpoint prevailed.

The reason why I am going into this is I see no reason why the Interior Department should slavishly follow the lead of the Department of the Treasury, and I wondered whether you would have any comment on it.

Senator BARTLETT. Yes; I would see no need for Interior to even interest itself in the Treasury's views. The episode which you reiterated is, of course, on the unique side and this sort of thing continues. My only comment would be that perhaps the foundations of the Republic would be a bit rocked; if so, it is perfectly fine with me. A little rocking once in a while is good.

I would hope that the Department of the Interior, as the agency having chief interest in this particular bill for the reasons that have

been related, would respond affirmatively to your suggestion for report. Because, in all truth, if something is not done, the gold-mining industry as such will soon be recorded in history only.

Senator GRUENING. It will be as extinct as the well-known dodo bird and the great auk.

Senator BARTLETT. Both, and the mastodon and other creatures that have lived long since.

Senator GRUENING. Senator Mechem, do you have any questions?

Senator MECHEM. No; thank you.

Senator GRUENING. Thank you very much, Senator Bartlett.

I notice that the distinguished Senator from Colorado is in the audience.

Senator BARTLETT. I am indebted to the subcommittee for hearing me out on this subject. I suppose if all the minutes I have testified before you on gold were put end to end, they would cover a very considerable amount of ground or time or both.

Senator GRUENING. Senator Allott, will you not join us up here?

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

Senator ALLOTT. Mr. Chairman, I am not a member of this subcommittee, as you know.

Senator GRUENING. But you are a member of the full committee, which has final jurisdiction.

Senator ALLOTT. I must go to an appropriation committee hearing. I would like to make a few remarks, if I may. And of course, I would like to introduce my own Congressman, Mr. Chenoweth, and then Mr. Bowen.

I am very interested in the chairman's remarks to our distinguished colleague, Mr. Bartlett. I know that the chairman is aware of the gold bill which I have introduced which has attempted to get at this problem from a different direction than that from which the chairman's bill does, either one of which would be of immense value to the miners of this country.

I know that our real problem here is the fact that this bill, as would mine, and as mine did, not only under this administration but under the previous administration, ran headlong into the Bureau of the Budget, the Secretary of the Treasury, the Finance Committee of the Senate, and the Ways and Means Committee of the House.

The bill which the distinguished chairman of this committee has drawn here was drawn with the expressed purpose that it would not run into these blocks and it will be interesting when we act upon it to see what occurs with respect to it after that time.

I am sure that the chairman is just as well aware of the blocks we may expect to see with respect to any gold legislation as I am.

I would simply like to add this, and because of my work in appropriations these last 2 weeks, I have not had the time to prepare a detailed statement.

I join in the statement which Mr. Bowen is presenting in behalf of Mr. Shoup who is unable to be here because of health reasons, and I sincerely hope that we may have action on this bill and have a thorough

discussion in committee, particularly the full committee, with a view to advancing this legislation or any other gold legislation that we can push.

The chairman has been very kind in the consideration of my bill. I hope we can move it along, too.

Thank you.

Senator GRUENING. Well, in executive session, we are hopeful of moving some of these bills forward to the full committee and I am hopeful that there they may get approval so we can at least get these out on the floor for discussion. I think it is necessary constantly to emphasize the fact which is known to all of us who are interested in gold that the gold industry has suffered an absolutely unique and unprecedented discrimination which is so contrary to all the precepts of our free enterprise society. There is nothing like it anywhere. We give much aid to other industries. We give very elaborate and costly aid to agriculture, which has never suffered any such discrimination. But here is an industry which we all know and you all know, but which the public and other colleagues of ours, perhaps, do not fully appreciate, is restricted arbitrarily to a price established 29 years ago and is limited in its opportunity to sell. This is completely contrary to our free enterprise system. That is the reason why some special measures are more than justified, because as a result of this action by the Federal Government, the industry is about to be extinguished.

That is wholly needless, and particularly needless in view of the fact that we see that other countries have not followed a similar policy.

In neighboring Canada, in Australia, the Union of South Africa, and Soviet Russia gold is being produced and in a number of these countries with the aid of subsidies. It is difficult to understand why we should continue to hold such a narrow, restrictive, hostile policy to any and all measures which would enable this industry to survive.

Senator ALLOTT. I agree with the chairman. I think that Mr. Shoup, with whom I have discussed this many times, has some very interesting ideas as to what can occur if this country continues to pursue a narrow, very narrow, policy on production of gold, and if Russia, for example, continues to produce gold. It is not a thought that is very comforting if Russia should use this gold, for example, someday to back the ruble.

Another thing I might suggest to the chairman, and I think Mr. Bowen can be very helpful in this, is that in his statement he has specifically analyzed what has happened to the Golden Cycle Corp. in Colorado. In this respect, I think his testimony will be of great value to the committee in showing specifically what has happened to one company under our present policy in this Government.

I do appreciate this opportunity to introduce Mr. Bowen and Judge Chenoweth, our Congressman from the Third District, and I will look forward to participating in the meeting with you.

Senator GRUENING. Senator Mechem, do you have any questions?

Senator MECHEM. No, thank you.

Senator GRUENING. The chairman is grateful to you, Senator Allott.

We have received a statement from Senator Lee Metcalf of Montana who has always been a staunch friend of the gold mining industry. It will be included in the hearing record at this point.

(The statement is as follows:)

STATEMENT OF SENATOR LEE METCALF, A U.S. SENATOR FROM THE STATE OF MONTANA

Mr. Chairman, I am genuinely appreciative of the opportunity to appear before this subcommittee on behalf of the gold mining industry and Senate bill 2125.

The purpose of Senate bill 2125 is to compensate producers who sell gold in the United States, yet are not compensated for the difference in costs of production of this mineral in 1963 as compared to the cost in 1940, the year U.S. gold miners reached their peak production. The bill contemplates that the amount of compensation would be determined by the Secretary of the Interior on a case basis in accordance with standards that are set forth in the bill.

In view of the fact that the Treasury Department repeatedly has objected to any plan to raise the price of newly mined gold, on the grounds that it would induce a change in the value of the dollar, and due to the increases in cost of all components of gold production such as labor, equipment, construction, and transportation, it is impossible for the gold miner of today to operate a profitable enterprise. The gold mining industry is, and has been for many years, adversely affected by rising costs in relation to the fixed price of gold. As evidence of this fact, in 1962 three large placer mines closed when minable reserves were depleted—only one similar new operation was begun.

Under the terms of this legislation, payments to gold miners would be carefully limited to amounts actually required for a low profit operation and only where the producer demonstrates that cost of efficient operation is so excessive a reasonable profit cannot be earned in the absence of assistance.

The gold mining industry has been under serious strain for many years. According to the U.S. Department of Interior, Bureau of Mines, domestic mine production of recoverable gold in 1962 was only 1.5 million troy ounces, the lowest peacetime production since 1884.

In my State, Montana, gold production 1962 dropped from 35,377 troy ounces in 1961 to 24,387 troy ounces in 1962. Gold production also dropped in Arizona, Colorado, North Carolina, Oregon, South Dakota, Utah, Washington, Pennsylvania, and Wyoming.

On the other hand, world gold production rose 2.6 million troy ounces to 50 million troy ounces valued at \$1.75 billion, a new record high. The 1962 gain in gold output was the ninth consecutive annual increase and was attributed principally to continued expansion of mining operations in the Republic of South Africa and to an increase in the estimated output of the U.S.S.R. Free-world governments and banking institutions at yearend reported gold reserves totaling \$41.5 billion, about \$300 million more than at the end of 1961.

Consumption of gold in domestic arts and industries rose to nearly 3.6 million ounces, about twice domestic production and an alltime high, except for 1946, when demand generated by wartime conditions reached a peak. Imports increased in 1962 to 4.3 million ounces, about three-fourths of which came from Brazil and Colombia.

The outflow of gold, resulting from the continued balance-of-payments deficit and conversion of dollar credits by foreign central banks, reduced the U.S. gold stock about \$900 million to \$16.1 billion at the end of 1962, the lowest level since 1939—and the drain is still continuing.

When world gold production is rising, when free-world governments and banking institutions are reporting growing gold reserves, when consumption of gold in domestic arts and industries is on the increase, when imports into this country are yearly increasing and when our balance of payments is in the condition that it is, it would seem that the gold mining industry in this country would be a thriving profitable business. Such is not the case. Therefore, I would urge your committee to give this bill your favorable consideration, it being a worthwhile and necessary piece of legislation for a seriously affected American industry in dire need of assistance—an industry that we cannot afford to be without.

Senator GRUENING. We will next hear from the distinguished Congressman from Colorado, Judge Chenoweth, who is well versed in all

matters that can help the mining industry, not the least of which is the gold mining industry.

Judge Chenoweth, we are glad to have you here.

STATEMENT OF HON. J. EDGAR CHENOWETH, A U.S. REPRESENTATIVE IN CONGRESS FROM THE THIRD CONGRESSIONAL DISTRICT OF THE STATE OF COLORADO

Mr. CHENOWETH. Thank you, Mr. Chairman, and our distinguished friend from New Mexico, Mr. Mechem.

I am delighted to be here this morning. I am back again. Whenever you want to see me over here just have a hearing on gold. I will come, Mr. Chairman, to put in my voice along with the others to try to do something to revitalize our domestic gold mining industry.

First I want to congratulate you, Mr. Chairman, on your perseverance and diligence and the vigor with which you have attacked this gold problem.

Now, I was here on July 15 and we had a hearing then on the bill that you had introduced. Since then, you have introduced S. 2125, making a new approach to the gold situation. I want to commend you and compliment you, Mr. Chairman, on this new approach.

I personally feel that perhaps this is the most feasible approach and the most practical approach to be yet made to this problem. Although to a certain extent, it does provide about the same remedy for the domestic gold mining industry that we have been seeking to accomplish, it accomplishes it in a little different way.

I hope it will balance off the unfavorable reports we have been receiving from the departments.

I was very encouraged to hear you say just now that the Department of the Interior is at least withholding its report. It is the first time we have ever gotten even that concession. So we are making progress and I hope you won't get impatient, because if we keep working on this, we are going to accomplish something here.

We are right, we have a good cause, and I think we should do something.

Senator GRUENING. The important thing is to try to get action before rigor mortis sets in.

Mr. CHENOWETH. I said when I was here in July, Mr. Chairman, that I wanted to do something for the gold mining industry and I wanted to do it now and I was ready to support any gold bill that would be introduced. That is why I am here today.

If you ask why I am here, I am here because I represent a very large and important gold producing area in this country. The Cripple Creek District area in Colorado I think was only second to Lead, S. Dak., gold mining area in gold producing until 1958. It has produced something over 19 million ounces of gold and there is still a great deal of gold to be produced.

Not a single mine, not a single gold mine, is operating in the Cripple Creek District today, Mr. Chairman. This I told you in July. There has been very little change, if any, since that time. The mines are closed.

In addition to the mines being closed, the mill of the Golden Cycle Corp. is still closed.

Senator GRUENING. Let me ask you this: If this bill should be enacted, isn't there a prospect that some of these mines would reopen?

Mr. CHENOWETH. I think if this bill could be passed, Mr. Chairman, it would reopen the gold mines of the Cripple Creek District.

I am not going to go into those details, because I have with me here Mr. Max Bowen, who is executive vice president of the Golden Cycle Corp., who is going to present a statement in behalf of himself and Mr. Shoup, who is president.

Both Mr. Shoup and Mr. Bowen have been recognized as authorities in the gold picture for many years. I am sure Mr. Bowen is going to present to the committee a statement which will be of great interest to you. He is going to explain just what the passage of this bill will do to the gold mines which his company owns and would operate in the Cripple Creek District.

I am hoping, Mr. Chairman, that you will be successful in getting this bill out of your committee to the full Interior Committee and then to the floor, and hoping that we can do the same in the House and do it promptly.

I know it is going to be a difficult fight. You have many problems. But in view of the patience and the perseverance which you have been displaying, I feel that eventually, success is going to be ours.

So I feel encouraged over the attitude you are taking. You have given renewed courage to those who want to do something for the domestic gold mining industry.

I congratulate you for what you have done.

Senator GRUENING. Thank you very much, Representative Chenoweth. I assure you we do not intend to quit. We are going to stay with it.

Mr. CHENOWETH. I have known you a long time and I know you never do quit. I know the people of Alaska appreciate what you have done for them.

Senator GRUENING. Thank you very much.

Mr. Mechem?

Senator MECHEM. No; thank you.

Mr. CHENOWETH. Before I present Mr. Bowen, I have a statement of the Honorable Harold T. Johnson of California. You remember Mr. Johnson was here before the committee. He is detained and he wanted me to present this statement for him. He doesn't know whether he will get here or not. I would like to have his statement included in the record.

Senator GRUENING. It will be included in the record at this point.

(The letter referred to follows:)

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

Mr. Chairman and members of the Minerals Subcommittee, I first want to express my deep appreciation for the invitation to testify before your fine committee today. As you well know, since my election to Congress some 5 years ago, I have worked with the representatives of the great State of Alaska and other major gold producing States in our Nation in an untiring effort to revitalize the gold mining industry. There is no domestic industrial problem more serious than this one, nor does the Federal Government have a responsibility to any domestic industry greater than its obligation to the gold mining industry.

I noted with a great deal of interest the remarks of the chairman when he introduced this legislation on behalf of himself, Senator Bartlett, and Sena-

tor Metcalf, and call special attention to his reference to earlier hearings held on S. 1273, a bill to establish in the Department of the Interior a Gold Procurement and Sales Agency. As principal author of this legislation in the House of Representatives, you will recall I testified in support of this legislation before this fine committee. Everything I said then still holds true today.

The chairman, in referring to these hearings, pointed out that the Treasury Department opposed this legislation, as it has every other bill which would help stimulate the production of gold in this country. This opposition was based on the fear that establishment of a Gold Procurement Agency with authority to pay up to \$105 per ounce for domestically produced gold would be interpreted overseas as a move to inflate the price of gold on the world monetary market.

The legislation now before you seeks to overcome this opposition and certainly I hope and pray that this goal is achieved because our gold situation is going from bad to worse.

Gold production is at record levels—everywhere, that is, except in the United States. For 9 consecutive years the production of gold throughout the world has been on the rise. This has taken place even though the United States, once the world's largest producer, has witnessed a production decline which has gone down and down and down, to the point where today we are contributing only 3 percent of the world's gold supply. Today, the United States is a fourth ranking producer of gold soon to be outpaced, possibly, by Australia.

Who are the major producers of gold in the world?

By far the biggest is the Union of South Africa, a controversial and turbulent nation. Latest figures available indicate that this nation is mining nearly 25 million troy ounces of gold a year. U.S. mines produce less than 6 percent of this total.

Second is the Soviet Union, our opponent in the cold war which is being waged just as hard on the economic front as on the military and political front. Production in this Communist nation exceeds 12 million ounces, more than that produced by North and South America, Asia, and Oceania combined.

Third is our neighbor to the North, Canada, producing about three times the amount yielded from U.S. mines.

I would like to point out that four of the five major gold producing nations, including Australia, provide some sort of governmental assistance or subsidy to encourage production of gold. Only the United States does not.

Many people do not like the term "subsidy" but I would like to call to your attention a report of the Joint Economic Committee filed in the 86th Congress. The joint committee found that the scope of the subsidy program of the Federal Government was so broad and complex that 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, civilian, and national defense stockpiles. These added up to nearly \$7.5 billion per year. Minerals subsidized ranged from A to Z, aluminum to zinc.

Since that time, gold has been added to the list, in that the Office of Minerals Exploration is now assisting our mining industry to find gold, but this, in itself, seems extremely unrealistic where the Federal Government through an artificially imposed price of gold which does not reflect the tremendous increases in the costs of labor and materials which we have witnessed since the depression days of the 1930's when this price was imposed, still restricts production.

Mr. Chairman, it is my fervent hope that the language of your gold revitalization proposal does overcome the objections of those who fear unbalancing the world monetary price of gold. The Federal Government created the problem in this industry and I feel it is the Federal Government's obligation to find a realistic solution. To date the Federal Government has shirked this responsibility.

Mr. CHENOWETH. Now I would like to present Mr. Max Bowen, who is executive vice president of the Golden Cycle Corp. I appreciate the opportunity of being here, Mr. Chairman.

Senator GRUENING. Thank you very much, Representative Chenoweth.

We are happy to have you with us, Mr. Bowen. You proceed in your own way.

STATEMENT OF MAX W. BOWEN, EXECUTIVE VICE PRESIDENT,
THE GOLDEN CYCLE CORP., COLORADO SPRINGS, COLO.

Mr. BOWEN. Thank you very much, Mr. Chairman. I appreciate this opportunity to appear before you.

First, may I present Mr. Shoup's regrets that he is unable to be here? He is under a doctor's care. He is improving very satisfactorily, but the doctor did not want him to do any traveling at this time.

Senator GRUENING. We know of Mr. Shoup's great interest and concern in this matter.

He has been here before us on previous occasions and his testimony has always been very valuable and very effective. While we are sorry he is ill, we are glad to have you here.

Mr. BOWEN. Thank you very much. I will not read his statement in detail. I will merely point out a few things.

Both Mr. Shoup and I have been here and presented statements prior to this, to both the Senate and the House committee hearings. In those statements, we have given both the monetary as well as the gold mining industry approach to this problem.

In this statement, we have confined our data to what this bill, S. 2125, would mean to the gold mining industry and what it means to the Cripple Creek district naturally applies to all other gold mining districts.

As most of you know, the downhill trend of the gold mining industry started at the beginning of World War II and increased a great deal in its downward trend at the passage or, as we like to say, the imposition of Order L-208. It has never recovered from that.

To substantiate that, I would like to call attention to some points that were brought out in our statement in March 1962 in which, taken from Government reports, the total number of gold mines, gold and silver properties, operating in 1940 was approximately 9,500.

In 1957—that was the last record that the Government had put out at that time—that had dwindled to 1,058.

Of that 1,058 there were 830 lode mines and 228 placer mines. So again, you can see that it is a little more than 10 percent of the number of mines operating now, or in 1957, as were operating in 1940. I think I am safe in stating that that number has dwindled considerably since 1957.

In the Cripple Creek district, our production has dropped from 1940, when it was about \$5 million, to less than \$1 million. That applies to practically all other districts. Most of the districts are like we are now. They have closed completely. We operated our properties and our mill at a loss for several years prior to 1961, hoping and thinking that there would be a change in the economics of the gold mining industry.

However, that did not occur and we could not see any change in the immediate future of that occurring, so we closed all the operations in the Cripple Creek district as of December 31, 1961.

And they will remain closed indefinitely until there is some betterment in the gold mining industry.

In our statement, we have calculated what this bill will do for two classes of mines, one a more or less higher grade gold mine, a low-

tonnage mine, which is the Ajax in this particular report, and then what it would do for the majority of the mines, which are low-grade and low-tonnage mines. We took as a representative of that the Cresson mine. Both of these mines have been operating for many years prior to January 1, 1940, and the Cresson mine was closed in September of 1959, whereas the Ajax closed at the end of 1961.

We have taken in our calculations, as shown at the back of our statement, we have taken our costs as of 1939 to arrive at an average cost for January 1, 1940, the effective date to be used in the calculation of a payment to be paid by the Interior Department under this bill.

The Ajax mine, under this bill, with the higher costs obtaining in 1961, the cost at that time was \$27.18 per ton, or \$38.28 per ounce.

So we were operating at a loss both at the mine and the mill.

Now, if we would resume operation—and I can definitely state that if this bill is passed with the provisions as are in the bill now, the proposed bill, very definitely, the Cripple Creek district would be rejuvenated—on the Ajax mine the compensation payment would amount to \$39.55 per ounce of gold produced as our cost at that time was as stated, \$27.18 per ton, or \$38.28 per ounce.

Whereas the low grade mine, the low tonnage mine, would receive a similar payment of \$41.31 per ounce.

Now, the Ajax would come within the bounds or the limiting factor of the cost of living index, which is a limiting factor as to the amount of compensation to be received under this bill.

We used the base years as 1947-49 as a base of 100 and the cost of living index for January 1, 1940, on this same basis was 59.9, whereas for July 1963, the cost of living index was 131.4, which gave us a factor of 2.2, that is, the cost of living had increased 220 percent, or 2.2 times what it was in 1940.

Therefore, by using that factor, we arrive at the cost, the present day allowable cost. The Ajax comes within that limit. However, the Cresson costs would be considerably more.

The reason for that again stems from the L-208. When that order was imposed, all gold mines had to close. We were—I started to say fortunate, but I think I should change that to unfortunate in that the Government told us when the L-208 was imposed that if we would convert a part of our mill to the treatment of base metal ores, lead and zinc, which were sorely needed during the war, they would permit us to run on a limited extent in our gold mining area, which we did, at a considerable cost, and continued to treat lead-zinc ores for the duration of the war.

As a result of that, we had no money to spend on exploration or development to develop a continuing source of ore for the operation of the mill. That condition has prevailed until this date, because, although we thought the gold mining industry would hit its stride after the war, it did not do so, not only in our area, the Cripple Creek district, but also in all other strictly gold mining areas.

The cost kept rising to the extent that all we could do was keep body and soul together and we mined what ore we could find easily.

Consequently, we wound up with no reserves developed.

When we decided to close down the mining operations in the Cripple Creek district in 1961, again we mined the ore that we had blocked out. We did no development work during that year. So that all

mines in the Cripple Creek district, and I think that applies to most other districts, mined all the ore they could as long as they could and hold body and soul together, and we were making money in some uranium operations and we transferred that money to Cripple Creek to try to hold the gold mining industry together in that district.

But when that ran out—we lost our lease in 1962, so it meant then we would have to use our other income for holding the district together, and we did not feel this was justified.

Now, what applies to Cripple Creek applies to all gold mining districts, with a few exceptions, and there are very, very few strictly gold mining operations going at this time.

In doing that, we find, as I stated, we would find a \$39.55 per ounce for the Ajax compensation payment and a \$41.31 per ounce of gold produced for the Cresson mine, or the lower grade mines.

Now, if you take that factor of 2.2, and if we can talk about the price of gold, although the price of gold is not mentioned in this bill, but to get a comparison, assuming that a mine is operating and is just breaking even on \$35 gold at the present time, and we will say his cost is \$35 an ounce, then the compensation payment can only be 2.2 times the 35, or \$77. The difference, then, would be between his present cost of \$35 and, say, \$77. So that in my example, or my two examples here, it shows that this bill would at least be equivalent to or slightly greater in some cases than a comparable \$70 or \$77 price for gold.

I think the calculations are relatively clear and I can say very definitely that should this bill be passed and should we get these compensation payments, even in the Cresson mine and our other low-grade mines and low-tonnage mines, we would be willing to gamble and would gamble reopening those mines with the hope that by some means we could reduce our costs so that we could operate at a slight profit under this bill.

Now, there is one other thing. Aside from not having developed or in the last few years—traditionally, and I think I am correct in saying in most districts—I know in Cripple Creek—gold mining districts have had a more stable labor supply than in any other mining, until, let's say, L-208, because from L-208 you didn't know what was going to happen.

But traditionally, we always had, particularly in times of financial stress or distress in the country, a surplus of gold miners when the other mines were wanting miners, due to the fluctuation of price in the base metals. Since we have closed our mines and the other districts have closed their mines, the gold miners have drifted away. They have gone into uranium mining, and all other base metal types of mining. Consequently, if we or other gold mining camps resume or try to resume operation, we will have to have a labor recruitment program which is going to take time to get the miners back.

The other point is, you may say that my figures for increased labor costs are high. We know definitely that, for instance, Homestake mines paid a lower wage scale right along than did the Anaconda Copper or the Montana Copper mines. We paid lower than Leadville and San Juan district or other mining districts in the State.

And as a matter of fact, during the uranium boom, we had one of the best producing mines in Colorado, at least on an AEC lease, where

our top wage scale in the uranium industry was from \$2.25 to \$2.50 for miners.

We could get all the gold miners we wanted in the Cripple Creek district prior to the boom for \$1.65. We know very definitely that when we resume operations we are going to have to pay the going wage scale in the base metal mines in Colorado; likewise, all other gold mining camps are going to be required to do the same.

That means that when we resume operations, our wage scale is going to be at least 50 percent higher than when we closed down in 1961.

I will not go into any more of the statement here. I do not think it is necessary. I think it is perfectly clear, but if there are any questions, I will be most happy to try to answer them.

Senator GRUENING. Thank you very much, Mr. Bowen. In addition to your oral testimony, your statement will be printed in the record in full.

(The complete prepared statement of Merrill Shoup and Max W. Bowen follows:)

STATEMENT OF MERRILL E. SHOUP, PRESIDENT, AND MAX W. BOWEN, EXECUTIVE VICE PRESIDENT, THE GOLDEN CYCLE CORP., COLORADO SPRINGS, COLO.

Mr. Chairman and gentlemen of the committee, my name is Merrill E. Shoup, and I reside at 900 Saturn Drive, 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 one small bank, a director of two, the chairman of the board 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 S. 2125 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 new gold bill, S. 2125—introduced by Senators Gruening, Bartlett, Bible, Kuchel, and Metcalf—and the probable effect the enactment of this bill would have upon the domestic gold industry. The distinguishing feature of this bill is as stated in same, namely, "For the purpose of aiding and restoring to profitable operations the domestic gold mining industry of the United States, the Secretary of the Interior is hereby directed to establish and administer a program to compensate domestic producers of gold for the difference between base average cost of operation on January 1, 1940, as determined by the Secretary and the same or equivalent current costs of individual operators qualified for assistance under this act." A copy of the entire bill, S. 2125, is attached hereto as exhibit A. [The bill is printed at the end of oral presentation.]

We have analyzed this bill as to what effect it would have insofar as the Cripple Creek, Colo., gold mining district is concerned. If this bill were passed, it would mean the resumption of profitable mining operation in this as well as in many other gold mining camps in most of the Western States and Alaska. This would greatly reduce unemployment, lessen welfare and relief

loads in these mining districts, and, at the same time, increase the production of gold which is becoming increasingly in short supply in this country.

Many gold mines throughout the Western States and Alaska which were operating on January 1, 1940, have been forced—largely by circumstances and/or Government regulations completely beyond mine management's control—to terminate their operations. This has come about as the result of ever-increasing costs caused first by World War II, followed by the imposition of the Gold Mine Closing Order L-208, and subsequent worsening of the economics of the gold mining industry. No relief has been forthcoming to this particular industry since the increase in the price paid for gold, which occurred in 1934. The cost-of-living index currently is 2.2 times the same index as of January 1, 1940, but the gold price remains the same as in 1934, \$35 per ounce. Numerous costs involved in the production of gold have risen beyond the 2.2 ratio, consequently this particular industry finds itself in an untenable position with no alternative but to expire: only a few exceptionally profitable mines can continue to operate.

It is for the reasons stated above that we respectfully urge this subcommittee to give all consideration possible to the recommending of this bill, S. 2125, to your full committee and further to both Houses of Congress for its passage. The greater urgency for the passage of this bill is not necessarily from the standpoint of the gold-mining industry, but rather it is far greater when considered from the U.S. monetary standpoint. We need gold, more gold, and we never needed it so desperately as at present.

We have, in the following pages, endeavored to show the beneficial effects the provisions of S. 2125 would have on the mines in the Cripple Creek District. A similar effect would obtain in all other domestic gold mines. Most gold mines that have been closed are in the same predicament as are the Cripple Creek mines; the number of miners left in the closed gold camps have been decimated to the extent that a recruitment campaign and/or retraining program will be necessary to get sufficient miners to reopen the gold mines. Likewise, the rehabilitation expense, before production is resumed, will be a large factor in determining whether or not a gold mine can resume mining operations. If S. 2125 is enacted into law, fortunately this item of expense is provided for in section 3. This bill is a simple, straightforward solution to the gold mining problem and we hope that it is not emasculated through amendments, administrative regulations, and excessive redtape to the point that all of its provisions are so weakened as to make it ineffective or so complex that the small operator cannot afford to take advantage of same.

This bill if enacted will be equally beneficial to both small and large gold mining operations for it is not only the small gold mines that are in a dire plight. Dr. McLaughlin, chairman of the board of Homestake Mining Co., last April, in a panel discussion on "Gold and Money" gave figures on costs at Homestake mine, the leading gold producer in the United States for many years. The figures he gave concerning the increase in costs indicate that their costs increased at or greater than 2.2 Cost of Living Index ratio, referred to in the following pages. Homestake's wage cost increase for 1962 over 1941 was 2.2; local taxes at ratio of 2.4; welfare costs 2.3; supplies 3.3. These increases correspond very closely to the estimated cost increases shown in the following pages as would apply if and when mining operations resumed in Cripple Creek. Although Homestake mine produced approximately the same amount of gold in 1962 as in 1941, the percentage profit earned was, no doubt, decreased greatly.

The calculations of benefits gained through the provisions of S. 2125 show that the Ajax mine which has always been considered a lower tonnage, higher grade gold ore mine would receive a compensation payment of \$39.55 per ounce of gold produced. The Cresson Mine, considered a larger tonnage, lower grade gold ore mine would receive a similar payment of \$41.31 per ounce of gold produced.

In conclusion, may we thank you for this opportunity to appear and present our views and comments on S. 2125 and again urgently request that your committee do everything possible to enact this bill into law. We greatly appreciate your interest, consideration, and cooperation in attempting to find a solution for the gold problem. Thank you.

MERRILL E. SHOUP.
MAX W. BOWEN.

Ajax mine—Calculations showing benefits gained through provisions of S. 2125

	Tons	Gross value	Value per ton	Ounce per ton
1939:				
Total production.....	32,512	\$533,671.55	\$16.41	0.50
Net value received from mill..... (Golden Cycle Mill paid \$32.76 per ounce for gold when under 5.00 ounces per ton.)		275,515.80	8.47	
Mining cost including depreciation, freight, and mill treatment charges, amount paid lessees and overhead charges.....			<i>Per ton</i> \$17.51	<i>Per ounce</i> \$35.02
	Tons	Gross value	Value per ton	Ounce per ton
1961:				
Total production.....	32,765	\$811,933.75	\$24.78	0.71
Net value received from mill..... (Carlton Mill paid \$35 per ounce for gold.)		563,897.43	17.21	
Mining cost, including depreciation, trucking, and mill treatment charges, amount paid lessees and overhead charges.....			<i>Per ton</i> \$27.18	<i>Per ounce</i> \$38.28

The above cost for 1961 amounting to \$38.28 per ounce is not a true current cost figure for the following reasons:

(1) The Carlton Mill operated at a loss of \$3.95 per ton (including tailing loss) or \$5.56 per ounce, consequently it subsidized the mines to this extent in order to keep the Cripple Creek district alive.

(2) The Ajax Mine and Carlton Mill should be entitled to a profit of 12½ percent of the net value received from the mill or 12½ percent × \$17.21 per ton or \$2.15 per ton, which amounts to \$3.03 per ounce.

(3) Ajax operations for 1961 do not represent present day costs for we were in the process of closing down operations, consequently we were using supplies and materials already charged off which had been purchased at a much lower cost than would obtain when mining is resumed. Likewise our wage scale was extremely lower than it will be when we resume operations. For these reasons, we know that these two costs will be at least 50 percent higher so we should add an increase of 50 percent × \$27.18 per ton which would amount to \$13.59 per ton, or \$19.14 per ounce.

(4) It was decided early in 1961 that mining operations would terminate on December 31 of that year; consequently, little or no exploration or development work was done in the mine. Further, since the decline in the gold mining industry began with the entry of the United States into World War II, greatly accelerated by the imposition of the gold mine closing order L-208, and further increased by the ever-rising costs, the mines in the Cripple Creek district had done little toward modernization of their equipment and methods with the two major exceptions of (a) driving of the Carlton drainage tunnel, completed in 1941, at a cost of \$1 million, and (b) moving of the mill from Colorado Springs to the Cripple Creek district, at a cost of \$2 million. These two projects depleted our working capital to the extent that only the exploration and development work done was as little as possible to provide sufficient ore to maintain a steady operation on a reduced tonnage. This was done with the hope that there would be some beneficial change in the economics of the gold mining industry which would enable the district to again get into a profitable operation. Under the existing circumstances—definitely beyond our control—we, the Golden Cycle management, did not deem it advisable to continue to carry on at a loss indefinitely, so terminated all operations in the Cripple Creek district as of December 31, 1962.

We estimate that (c) costs of mine rehabilitation provision, under section 3 of S. 2125, will amount to at least \$750,000, which, based upon 175,000 tons of ore developed assaying 0.50 ounce per ton, would add an additional cost of \$4.28 per ton, or \$8.56 per ounce to be added to above costs.

Recapitulation of above costs

Recapitulation of above costs	Per ton	Per ounce
Mining costs, 1961, above.....	\$27.18	\$38.28
(1) Add milling deficit and tailings loss.....	3.95	5.56
(2) Add profit (mining and mill).....	2.15	3.03
(3) Add increase in costs since 1961, 50 percent.....	13.59	19.14
(4) Add rehabilitation.....	4.28	8.56
Total current costs (estimated).....	51.15	74.57

The "compensation payment" per section 2, of S. 2125 is "for the difference between base average cost of operation on January 1, 1940, and the same or equivalent current costs of individual operators qualified for assistance under this act."

Ajax Mine

	Per ton	Per ounce
Estimated current cost (1963).....	\$51.15	\$74.57
Jan. 1, 1940, costs.....	17.51	35.02
Difference (estimated compensation payment).....	33.64	39.55

Paragraph (b) section 5 of the bill, S. 2125, limits the compensation payment to the corresponding increase in the cost-of-living index between January 1, 1940, and current so we used for cost-of-living index as of July 1963 for current costs. The cost-of-living index for January 1, 1940, was 59.9 (based upon 100 for years 1947-49) while for July 1963 it was 131.4 (upon same 1947-49 base of 100). Therefore, the ratio is 131.4/59.9 or 2.2. Our cost per ounce for January 1, 1940, was \$35.02, therefore the maximum per cost-of-living index increase would be $\$35.02 \times 2.2 = \77.04 . Since our estimated current cost per ounce is \$72.84, we are within the prescribed limits, so Ajax's compensation payment based on above estimate would be \$39.55 per ounce.

Cresson Mine—The Cresson Consolidated Gold Mining & Milling Co.

	Tons	Gross value	Value per ton	Ounce per ton
1939:				
Total production.....	128,404	\$1,259,426.48	\$9.81	0.30
Net value received from mill..... (Golden Cycle Mill paid \$32.76 per ounce for gold when under 5.00 ounces per ton.)		736,856.34	5.74	
Mining cost, including depreciation, freight, and mill treatment charges, overhead, and amount paid lessees.....			<i>Per ton</i> \$10.33	<i>Per ounce</i> \$34.43
	Tons	Gross value	Value per ton	Ounce per ton
1958:				
Total production.....	28,794	\$332,000.04	\$11.53	0.33
Net value received from mill..... (Carlton Mill paid \$35 per ounce for gold.)		185,717.73	6.45	
Mining cost, including depreciation, trucking, and mill treatment charges, overhead, and amount paid lessees.....			<i>Per ton</i> \$15.15	<i>Per ounce</i> \$45.90

Again, as in Ajax figures above, this cost of \$45.90 per ounce is not a true current figure for the same reasons as explained in detail above, so similar additional charges must be added conforming to Cresson operations:

(1) Carlton Mill deficit and tailings loss charge of \$1.36 per ton or \$4.12 per ounce, based upon Cresson ore.

(2) The Cresson Mine and Carlton Mill should be entitled to a profit of 12½ percent of the net value received from the mill or 12½ percent times \$6.45 (per ton) or \$0.86 per ton or \$2.60 per ounce $\frac{\$0.86}{.33} = \2.60

(3) Add 50 percent charge for higher labor and material and supply costs or 50 percent times \$15.15 per ton or \$7.58 per ton or \$22.95 per ounce.

(4) Rehabilitation cost of \$500,000 to develop 125,000 tons of 0.30 ounce per ton ore, which would amount to \$4 per ton of ore of \$13.33 per ounce.

Recapitulation of above costs

	Per ton	Per ounce
Mining costs, 1958, above.....	\$15.15	\$45.90
(1) Add milling deficit and tailings loss.....	1.36	4.12
(2) Add profit (mining and milling).....	.86	2.60
(3) Add increase in cost since 1958 (50 percent).....	7.58	22.95
(4) Add rehabilitation.....	4.00	13.33
Total current costs (estimated).....	28.95	88.90

The "compensation payment" per section 2 of S. 2125 is for "the difference between base average costs of operation on January 1, 1940, and the same or equivalent current costs of individual operators qualified for assistance under this act."

Cresson Mine

	Per ton	Per ounce
Estimated current cost (1963).....	\$28.95	\$88.90
Jan. 1, 1940.....	10.33	34.43
Difference.....	18.62	54.47

Paragraph (b), section 5, of the bill S. 2125 limits the compensation payment to the corresponding increase in the cost-of-living index between January 1, 1940, and current, so we used the cost-of-living index as of July 1963 for current costs. The cost-of-living index for January 1, 1940, was 59.9 (based upon 100 for years 1947-49) while for July 1963 it was 131.4 (upon same 1947-49 base of 100). Therefore, the ratio is 131.4 or 2.2.

59.9

Our cost per ounce for Cresson for January 1940 was \$34.43; therefore, the maximum per cost-of-living index increase would be $\$34.43 \times 2.2 = \75.75 (maximum permissible compensation payment). However, since Cresson's estimated current cost per ounce is \$88.90 and this being above the permissible, Cresson would be entitled to only the difference between the permissible payment per cost-of-living index which would be $\$75.75 - \34.43 (cost January 1, 1940) or \$41.31 per ounce.

The above calculations demonstrate the benefits which would be derived from the provisions of S. 2125. The Ajax mine, a smaller tonnage, higher grade ore mine would receive an estimated compensation payment of \$39.55 per ounce of gold produced. The Cresson, a larger tonnage, lower grade ore mine would receive an estimated compensation payment of \$41.31 per ounce of gold produced.

Senator GRUENING. I want to call your attention to a very useful letter received from Henry L. Day, who is the president of Day Mines, Inc.

He makes a number of constructive suggestions. In fact, he has presented a modified version of this bill, and if it is agreeable to you, I am going to send you a copy as I will to Representative Chenoweth and the other witnesses, and ask for their comments and see whether some of these suggestions should not properly be incorporated in a modified version of our bill.

We were exploring new terrain and certainly there is no drafted legislation that cannot be improved. I think some of Mr. Day's suggestions are extremely practicable.

He suggests, for instance, that there is no such thing as a cost of mine operation on a single day such as January 1, 1940, and that individual base averages should be determined over a period of not less than 3 months. He suggests as a minimum the fourth quarter of 1939. He says even more representative costs will be utilized if the entire calendar year of 1939 were used.

I think that is a practical suggestion.

Mr. BOWEN. That is what I used in my calculation.

Senator GRUENING. There are a number of other things and I am going to have this letter copied and sent to you and I would appreciate your views if you would lay this letter alongside the present draft of the bill and suggest which of his changes you think should wisely be incorporated.

We will send his letter also to the Department of the Interior so, as they approach this difficult question, from their standpoint, they will have the benefit of his suggestions.

Mr. BOWEN. I shall do that.

Senator GRUENING. Have you any questions?

Senator MECHEM. No questions.

Senator GRUENING. Thank you very much for being here.

Mr. BOWEN. Thank you for allowing me to present my side of the story.

Senator GRUENING. Dr. Elgin Groseclose.

We are happy to see you here again. We are always happy to hear from you.

STATEMENT OF ELGIN GROSECLOSE, PH. D., OF GROSECLOSE, WILLIAMS & ASSOCIATES, FINANCIAL AND INVESTMENT CONSULTANTS

Mr. GROSECLOSE. Mr. Chairman and members of the committee, I have a prepared statement which I would ask the committee to have filed and made a part of the record and I will just read portions of it.

Senator GRUENING. Both your oral testimony and your statement in full will be incorporated in the record.

(The complete prepared statement of Elgin Groseclose, Ph. D., follows:)

PREPARED STATEMENT OF ELGIN GROSECLOSE, PH. D., OF GROSECLOSE, WILLIAMS & ASSOCIATES

Mr. Chairman, I appreciate the invitation of the committee to give my views on S. 2125, a measure sponsored by a bipartisan group of Senators to authorize payments to domestic gold producers based on the difference between costs of production in 1940, and present costs. I appear before you as an economist who for nearly 40 years has been concerned with the functions of the precious metals

as money, and who has for a number of years served as economic consultant to various elements of the gold and silver producing industries of this country. Neither I nor the firm which I head, Groseclose, Williams & Associates, financial and investment consultants of this city, have been engaged as representatives on behalf of these industries to sponsor or to oppose any legislation. What I shall present represents my own views on the subject and not necessarily those of the gold mining industry nor of my firm's clients.

In order to come to grips at once with the issues before your committee, I shall defer a statement regarding my qualifications to give testimony and ask that the statement be inserted and made a part of the record following my testimony.

Three questions in economics are involved in the legislation before us. The first is whether the gold mining industry has been penalized or discriminated against by actions and policies of the Government, as to warrant compensatory adjustments to gold producers. S. 2125 provides one form of compensatory action, though not necessarily the only or complete remedy.

The second question is whether more gold should be produced in this country in the national interest and whether the need is sufficiently urgent that gold mining be stimulated by measures here proposed.

The third question is whether the method of compensating gold producers, or of stimulating increased production of gold, as proposed in this bill is the correct one.

The last question lies more in the field of accounting than of economic principles and is one on which I have no competent opinion to express to this committee. I believe representatives of the gold-mining industry and accountants familiar with accounting methods in the industry are more competent to answer the questions as to the correct method of compensation for particular gold producers.

As to the first question, whether the gold-producing industry has been unfairly discriminated against by Government action and policy, the case for the mining industry rests upon unimpeachable grounds which I will state briefly but which I will not discuss in detail.

Wartime closing of mines

The first of these grounds is the issuance, early in the war, of War Production Board Order L-208, of October 8, 1942, which remained in effect until July 1, 1945. This order practically terminated gold mining in this country by denying the industry access to supplies and equipment needed for maintenance of mining operations. What gold was produced was largely a byproduct of other mining. There can be no doubt that gold is one of the most important strategic metals in time of war, and the suspension of gold mining on the grounds that it was a nonstrategic activity can be justified neither in equity nor in experience. All history has demonstrated the supreme necessity of a store of gold to the nation that finds itself at war. Speaking from my personal experience in wartime service as Treasurer General of Iran, we found—and the U.S. Treasury, the State Department, and the military commanders all agreed—that gold was a most necessary material of war and scarce space on airplanes was allotted for the transport of gold from the U.S. Treasury to Teheran. We used it to combat the inflation that was rapidly reducing the country to economic chaos and endangering our military activities in the Middle East. The fact that the United States at the time held substantial stocks of gold has little bearing on the question as to the strategic importance of gold and the necessity of preserving the mining industry that was producing this gold. The Government did not close down other nonstrategic activities such as the theater, motion pictures, the operation of merry-go-rounds, and amusement devices.

The U.S. gold mining industry has not yet recovered from the losses occasioned by that shutdown. Gold production, after recovering to some extent after the war, has been falling since 1951, and in 1962 was only 1.5 million ounces, less than a third of the annual production before the issuance of War Production Board Order L-208 and the lowest peacetime production since 1884. Many, if not most, of gold mines existing before the order have never been reopened. The mining industry has never been properly compensated for the losses occasioned, and the fact that lawsuits for recovery ran adverse to the miners, while they may have proved that the Government was acting within its statutory authority, do not prove that the action was prudent, just, or equitable in a larger context.

The gold miner and the Federal Reserve

The second area of discrimination against the gold mining industry is found in our monetary laws. The issue has been so mingled with politics, sentiment, and special interest that it has never been made clear to the public. It is this: Under our banking monetary system, the Government asserts a monopoly over the market for gold by compelling miners to deliver gold to the Treasury at a price that has been fixed since 1934 at \$35 an ounce. The Treasury delivers title to this gold to the Federal Reserve System, and the Federal Reserve System, by adding to it Government securities or the notes of commercial firms, can create money in the form of Federal Reserve notes or bank credit to the amount of four times the value of the gold received. That is, for each ounce of gold for which the miner receives \$35 in paper money—not redeemable in gold—the Federal Reserve can issue \$140 of notes, thus having a profit of \$105 on the transaction. Obviously, an entity that can multiply the purchasing power of an ounce of gold by four times enjoys a preferred position in the market in bidding for goods and commodities. In other words, gold in the hands of the miner who has won it at the expense of his human labor and effort and investment—and there is still gold being produced by the arduous toil of panning streambeds with human labor—has one value; in the hands of the central banking and monetary system it has another value four times as great—a value obtained at the cost only of paper, ink, and engraving.

Here is an obvious discrimination in economic terms. The effect of the process is a gradual inflation in prices of everything the gold miner buys while the price he receives for his product remains the same. This process carried on over a period of 30 years has reduced the value of the gold miner's labor by more than one-half; that is to say, his ounce of gold is still worth only \$35, whereas the things he has to buy—labor, equipment, supplies—cost him from two to three times as much. No wonder mine after mine has had to close because of this inability to make ends meet on such terms. Here is the underlying reason for compensating the gold miner as is proposed in this bill.

Public interest needs gold production

It is certain, of course, that these statements and reasons will make little impression on a large element in Congress whose constituency is not affected by gold mining. This brings me to the third reason—No. 2 in my list—dictating some form of compensation to the gold mining industry—and this is one that lies in the public interest and is, therefore, of general concern. It is the question whether the country, or the world, for that matter has sufficient gold to meet its needs. The question cannot be approached quite so simply as in the case of milk supply, where the legislators may be guided by the counsel of doctors that every child should have, say, a quart of milk a day and, consequently, may, in the public interest, authorize a subsidy to the dairy industry in order to stimulate sufficient production to make that quantity of milk available. In the case of gold, the question is far more abstruse and complicated.

Let us note, however, that it is a question, and it is an urgent question today. At the recent annual meeting of the International Monetary Fund held in this city early in October, the chief preoccupation of the representatives of the 90-odd members, and some 800 or more international monetary and banking officials that attended the meetings, was that of the sufficiency of gold. The term used was that of the "adequacy of international liquidity," meaning the "sufficiency of the means of settlement of world trade balances."

The international liquidity question

Before discussing the meaning of these terms, let us note that this is not the first time the issue has arisen. It has been before the International Monetary Fund at various times over the past 10 years, particularly since 1958, when the world became worried by the outflow of gold from this country that raised questions for the first time as to the soundness of the U.S. dollar. Last year, the subject was debated with some vehemence, and certain proposals were advanced, particularly by the Chancellor of the Exchequer of Great Britain, Mr. Reginald Maudling, but at that time our Treasury officials rejected any thought that there was a shortage of international liquidity or that the dollar was not sufficiently sound to meet all such needs. However, this year, the U.S. Treasury has reversed its attitude and took the lead in forming a 10-nation committee to study the entire question. At the same time, the International Monetary Fund itself announced that it would embark on a major study of the question of international liquidity.

The term "international liquidity" has been variously defined, but there seems to be a growing consensus on its use as meaning the total gold and foreign exchange available to meet the demands of world trade and balance-of-payments settlements. By foreign exchange is meant mainly what are called the key currencies—that is, dollars and sterling—and we might add that sterling is really dollars once removed, since sterling today enjoys international acceptability largely by reason of the fact that U.S. financial power has stood behind sterling at various crises of confidence.

Your committee is entirely too sophisticated in these matters for me to attempt these explanations of international liquidity; but perhaps for the purpose of the record, and in order to maintain the simplicities, some further exposition of the subject is desirable. The problem facing the international bankers is not much different from that facing the ordinary business enterprise. To do business one must have a certain amount of ready cash. It is elementary in economics that most business failures are precipitated by lack of cash to meet due bills. Cash resources dry up by reason of a series of adverse years in which expenses have outrun income. There may also be a shortage of cash by reason of the very opposite—an expansion of business so rapid that ready funds are not equal to the increased demands for cash for the purchase of inventory, operating equipment, the payment of wages and salaries, the carrying of accounts, and the like.

It has been customary in business enterprise to treat working capital as the equivalent of cash, since working capital is ordinarily good credit for a bank loan and can thus be converted into cash. Working capital may be defined as the excess of cash, readily salable securities, and current accounts receivable over current accounts payable and debt maturities falling due within the year. A business is considered highly liquid if it has a high ratio of short-term assets to short-term liabilities. However, a firm may find itself suddenly quite illiquid despite a high liquidity ratio. In 1920, for instance, a sudden and extended break in prices reduced the marketable value of inventories, converted many otherwise good receivables into uncollectible debts, and cut off bank credit. At such a time, the businesses that were able to keep their heads above water were those that had maintained a high proportion of their quick assets in the form of cash itself. In 1932, however, when a similar situation developed, even those businesses which had large and ordinarily adequate sums in cash were forced into bankruptcy by reason of the fact that the cash was not really cash at all but deposits in banks, and the banks were unable to deliver cash.

The dollar and international liquidity

The practice of treating receivables as cash and therefore as an element of liquidity, which has repeatedly brought disaster in domestic dealings, is a major element in the current problem of international liquidity.

In international dealings, gold has emerged as the only ultimately acceptable form of cash for settlement of balances. It is acceptable because it has a universal market and demand, although in some areas of the world silver is equally acceptable and enjoys more utility.

Following World War I, there developed a substantial increase in the practice by which central banks treated their holdings of gold convertible foreign exchange as prime reserves along with gold in their currency reserves. Mainly this foreign exchange was in the form of deposits in London or New York banks. The foreign central banks felt safe in regard to dollar deposits since the United States had never suspended convertibility of the dollar and the Federal Reserve banks had ample gold to meet all their note and deposit obligations. Dollar deposits bore interest, of course, and consequently added to the earning power of the central banks. In addition to bank deposits, U.S. Treasury notes and bills were held as equivalent to gold.

The system of using receivables instead of cash as central bank reserves became popular, and in no time at all produced a worldwide inflation. It brought on in 1929 a world collapse of credit from which the world still suffers. May I recall briefly the process by which this came about, since history does repeat itself and we are involved in an almost parallel situation today.

The foreign exchange inflation

During the 1920's, you will recall, there was considerable enthusiasm in U.S. investment circles regarding the world outlook, and investors were willing and ready to purchase bonds offered them by reputable Wall Street bankers on behalf of foreign borrowers. These were good investments for the holders could

ordinarily take the bonds to their banks and borrow against them to a substantial proportion of the cost.

Let us take a typical instance, with which I had some personal experience at the time while associated with one of the major Wall Street investment houses. An Austrian province negotiated a loan in the New York market. Proceeds of the loan were credited to the borrower in the form of a deposit credit with a New York bank. Against this deposit the Wall Street bank was required to maintain a reserve with the Federal Reserve bank of 13 percent. In turn, the Federal Reserve bank was required to maintain in gold an amount equal to 35 percent of the deposit of the New York bank. On each million dollars of loan proceeds held by the Austrian province in the form of deposit credit, the reserve was \$130,000 with the Federal Reserve bank. The Federal Reserve bank in turn was required to hold \$45,500 as a reserve against the deposit of the New York bank. Here we have less than \$50,000 in gold supporting purchasing power of \$1 million.

Now the Austrian province sold these dollars to the Austrian National Bank for schillings, since what the province needed was something that it could use in Austria, while the Austrian National Bank could use these dollars as reserve for its own currency outstanding.

Under Austrian law, the reserve requirements of the Austrian National Bank were 33½ percent, to be held either in gold or convertible exchange. Thus it could in turn create deposit credits to the equivalent of \$3 million. To the extent that it discounted for the commercial banks, a further increase in liquidity was provided. Thus we had a condition of total quasi-money in excess of \$3 million and possibly as high as \$10 million built upon less than \$50,000 in gold.

The international inflation

The immediate consequence of this operation was to stimulate business activity both in this country and in Austria, not to mention the rest of the world, since the practice had become universal. There arose a new demand for credit, and a demand for all the goods that flow in trade. All this in turn required new banking power to meet the credit needs of borrowing. Thus the inflationary spiral of both credit and business continued to ascend, and all went very well so long as everyone was confident in the future. Unfortunately, along in 1928, by reason of a number of factors, U.S. investors, particularly the more conservative ones who bought bonds, grew reluctant toward buying more foreign bonds, and in May of 1928 the foreign bond market suddenly collapsed. I recall the event vividly since the bank with which I was associated had underwritten an issue of Danish Government bonds and had been forced to take most of the issue itself by reason of the absence of a market. Thereafter almost no foreign bonds were sold in the U.S. market.

The stoppage of the flow of credit abroad had immediate consequences. Banks abroad had to restrict their own credit facilities, and their customers, in order to obtain working capital, began to clean out their cashboxes of their most marketable securities and put them on the market. Among these were large amounts of American blue chip stocks. The dumping of these securities probed the weakness in the market and it finally exploded in the shattering collapse of October 1929.

The current world inflation

Following World War II a similar situation arose. Most European governments were short of gold and cash and needed credit to rebuild their economies. By reason of the Securities and Exchange Act and the general disenchantment with the lending of the 1920's, the Wall Street investment banks no longer provided the market for foreign bond issues. It was at this point that the Government stepped in and became the principal lender abroad, first through the Marshall plan and second through the various foreign-aid programs. It was the Government grants and credits through the foreign-assistance program that have provided dollars to meet the so-called "dollar shortage" of these years. This has been going on now for 14 years with the result that Europe has accumulated some \$25½ billion in the form of deposits or short-term Treasury bills, of which approximately \$11½ billion are held by foreign central banks as reserves for their deposit and note liabilities. Europe is experiencing again another inflationary cycle, most pronounced in France and in Germany, which may well be cause for greater concern than is presently being shown anywhere.

Now the great fear in Europe which is not spelled out in the public announcements but which you may read between the lines, and particularly in the various statements of the finance ministers of the so-called underdeveloped countries, is that this flow of U.S. dollars may be terminated as it was in 1928, thereby putting a short and unhappy stop to their business boom. Some of the governments, particularly France, are beginning to become sophisticated about this situation and quietly are converting their dollars into gold.

The gold shortage in figures

At this point perhaps a few statistics may be in order to illustrate the situation we have reached.

In the 10 years between 1952 and 1962, according to the compilations of the International Monetary Fund, world trade in the form of exports, measured in U.S. dollars, increased from \$74 to \$124 billion, or some 70 percent.

During the same 10-year period, when world trade was increasing 70 percent, gold reserves of the free world's monetary systems increased from \$35.8 to \$41.4 billion, or 16 percent. That this amount was not only relatively but actually insufficient is shown by the increasing use of foreign exchange holdings of the central banks. These increased from \$15.6 billion to \$22-plus billion, or some 45 percent. The uneasiness abroad regarding international liquidity arises from the dilemma created by the outflow of dollars to support the continuing expansion abroad. If the flow of dollars should be curtailed, then the boom will likely collapse with more than a thud. On the other hand, the flow of dollars can be maintained only by a continuance of the U.S. balance-of-payments deficit. But the continued deficit means a continuing drain of gold and a further thinning of the reserves behind the dollar.

Again, let us note a few figures. During the years 1915-32, the period of the post-World War I boom and collapse, the ratio of gold holdings in this country to total monetary liabilities, by which I mean our circulating notes and demand deposits outstanding, was of the order of 8½ percent. At the present time the ratio is less than 5 percent. In other words, we have reached a far more delicate and tenuous and worrisome situation in regard to the ultimate availability of gold than we did in the period which resulted in the greatest crash in history—a crash that brought misery and suffering to hundreds of millions of people around the world and in the views of many historians, was the father of the Hitler regime and World War II.

The solution to the dilemma

The means taken to solve the 1929 problem of liquidity, while perhaps an unwitting solution, but nevertheless a necessary solution, was that of revaluing the dollar in order to put more gold behind the dollar. It was, in effect, an act similar to a receivership, that pays off creditors in proportion to the assets available. That writedown was of the order of 40 percent. The dollar was revalued at 59.06 percent of its former gold content.

The meaning of the 1934 revaluation has been largely misunderstood for the reason that it was undertaken consciously to raise prices under a theory offered by a Cornell agricultural economist that a change in the price of gold would react in the price level. It has taken 30 years to demonstrate the correctness of Professor Warren's thesis. Meantime all the gold made available through that action has been absorbed in the new expansion of credit.

The parallel of silver

It will become obvious to the Treasury Department as it is to a limited number of monetary economists that a revaluation in the price of gold is the inevitable and only solution. For some years I have testified before committees of the Congress regarding a similar situation, that of silver, pointing out that everything in the record indicated that higher prices for silver were not only inevitable, but necessary to increase silver production in accordance with consumption demand. I recommended that wise public policy would be to conserve U.S. Treasury free silver stocks. Belatedly, the Treasury recognized the correctness of these presentations and in November 1961, terminated public sales of Treasury-held free stocks. By then these stocks had practically disappeared. Treasury was then compelled to go to Congress for authority to use its monetary reserves for its subsidiary coinage needs, but if it had conserved its free stocks it would have had abundant supplies. The shortsightedness of the Treasury in regard to silver has its bearing upon the gold situation by reason of the fact that the Treasury now has in process a substitution of all

outstanding silver certificates by Federal reserve notes. The amount of silver certificates totaled nearly \$2 billion and the conversion will require one-half billion dollars in gold as reserve for the replacement notes. The first of the new Federal Reserve \$1 bills to be issued in replacement of silver certificates will occur, I confidently predict, before Christmas.

INEVITABILITY OF GOLD DEVALUATION

I would like to register that I am not an advocate of gold price revaluation as a means of saving the domestic mining industry, much as I am concerned for the welfare of that industry. I merely state that a reevaluation in the price of gold is an inevitable consequence of our monetary mismanagement over the past 30 years and that all the committees and commissions to develop new means of creating international liquidity will be only pitiful failures. I would regret to see any reevaluation of gold without at the same time an overhaul of our banking and monetary system to make sure that the credit excesses permitted by our monetary system do not occur again. We have undergone one debasement of our currency. A great power exists as a great power only by reason of its integrity. A second debasement would be a shock to world confidence. The world might survive this shock to confidence if the event were used as an occasion to accept the moral responsibilities of money, by which I mean to accept that money is not a tool to be used to manipulate the economy but a value in itself which must be maintained as the most important heritage and sign of greatness.

What bearing does this discussion of monetary history and principles have upon the question of a subsidy? It is hardly likely that the bill before you would be fruitful in expanding U.S. gold production sufficiently to meet the world problem which we face by reason of our monetary excesses. What it will do is to prepare the way for the more fundamental solution of the gold question. Continued discussion of the plight of the gold miner serves to keep the gold question before the public in its proper perspective, and to report out a bill carrying a subsidy would surely be the most effective way of getting the deeper issues to the floor of the Senate and properly exposed to the public eye and public discussion. It would be hoped that this would, of course, in some measure assist the mining industry which I need not tell this distinguished committee is one of the most depressed economic segments in the whole spectrum of American industry.

Thank you for the privilege of appearing before you and I will submit at this time for inclusion in the record a brief statement of my education, writings, and experience in regard to gold and precious metals in their monetary aspects.

STATEMENT OF QUALIFICATIONS OF WITNESS

The experience of your witness in the gold question began following World War I when he did relief work in northwestern Iran and the Soviet Caucasus, regions then in a state of political and economic anarchy. In northwestern Iran an ample supply of good silver money was a powerful aid to our efforts to restore the village economy devastated by invasion, warfare, and political collapse. In the Soviet Caucasus, all economic activity was in paralysis due to a flood of paper money that had reduced the value of the note issue to nearly zero—bread was almost sold by its weight in paper rubles—and such trade as did exist was sustained by the existence in circulation of a modest amount of Turkish gold lira and other gold coins. Thus, despite the teachings of Marx and the contempt which Lenin is supposed to have expressed for gold, it was gold coins and gold coins only that permitted trade to rise above the primitive conditions of barter.

On his return to the United States your witness was for several years special agent in the U.S. Department of Commerce and the Department's specialist in Far Eastern finance, responsible for keeping the Department advised regarding gold and silver movements, and during this period the Department published his studies, "Currency Systems of the Orient" and "Budgets of Far Eastern Countries." Subsequently he had Wall Street experience with what is now the Morgan Guaranty Trust Co.; he was the first financial editor of *Fortune*, and later he taught at the University of Oklahoma. In 1934, the University of Oklahoma Press published his "Money: The Human Conflict," a survey of monetary experience, a work that was republished in 1961, after revisions to bring the story down to date, under the title "Money and Man."

World War II inflation

In 1943 your witness was appointed Treasurer General of Iran by action of the Iranian Parliament, with a principal task that of combating the inflation that was then on the verge of reducing the country to a new anarchy. In the interval between his first and second visits, Iran, following the example of so many countries under the tutelage of American money doctors, had abandoned its good silver coinage for a system of managed money and paper currency. Recalling the lessons of his earlier experience, your witness recommended re-opening of the gold market and arranged for the sale of gold by the national bank. The measure was effective. Gold was allowed to perform its proper function in the economy, inflation was checked, and the policy was adopted throughout the Middle East theater. A similar policy had been recommended in the case of China by Dr. Arthur Young, adviser to the Chinese Nationalist Government, but had never been fully implemented.

Since 1944 your witness has been engaged in economic consultant work with an international clientele, and in 1960 was instrumental, with several like-minded persons, in organizing the Institute for Monetary Research, Inc., a non-profit organization to foster research into monetary phenomena and to promote a wider understanding of monetary behavior through the publication and dissemination of the results of research. In 1962 this institute published a monograph of his authorship entitled "The Decay of Money," a survey of Western currencies, 1912-62.

Mr. GROSECLOSE. I appreciate the invitation of the committee to give my views on S. 2125. I appear before you as an economist who for nearly 40 years has been concerned with the functions of the precious metals as money and who has for a number of years served as economic consultant to various elements of the gold and silver producing industries of this country.

What I shall present, however, represents my own views on the subject and not necessarily those of the gold mining industry nor of my firm's clients. Before that, however, I should like to draw the attention of the committee to the leading article in the Wall Street Journal of this morning. It says:

South African mining boom nears the end. The world trade can feel the pinch.

It points out that South African production, which has been rising very rapidly in recent years is now leveling off and a number of the leading mines there are operating at a cost in excess of \$35 an ounce. I think the committee might like to insert this article in the record because of its bearing on the question before the committee.

Senator GRUENING. The article will be included in the record after the letters at the end of oral testimony.

Mr. GROSECLOSE. I think it is important because a good deal of the opposition to this bill before you comes because of those who feel that the world is producing adequate quantities of gold, largely due to the increase in South African production since the war. This article points out that South African production may not meet these demands in the near future.

I would like also to invite the committee's attention to the Minerals Yearbook section on gold which has just been released. I think the author of it is in the committee room, one of the authors, Mr. J. P. Ryan, in which this statement appears:

It was estimated that more gold was absorbed into industrial and private holdings in 1962 and less went into official reserves than in any postwar 2 years.

This is rather significant in view of the claim that we have adequate supplies of gold and of new gold coming from the mines.

Three questions in economics are involved in the legislation before us. The first is whether the gold mining industry has been penalized or discriminated against by actions and policies of the Government as to warrant compensatory adjustments to gold producers.

S. 2125 provides one form of compensatory action.

The second question is whether more gold should be produced in this country in the national interest and whether the need is sufficiently urgent that gold mining should be stimulated by measures here proposed. And the third question is whether the method of compensating gold producers or of stimulating increased production of gold as proposed in this bill is the correct one.

The last question lies more in the field of accounting than in economic principles and is one in which I have no competent opinion to express to this committee.

But I do commend you and I have noted that you have Mr. Day's letter before you and the testimony of Mr. Bowen bearing on that question.

As to the question whether the gold producing industry has been unfairly discriminated against by Government action, or policy, production, particularly War Production Board Order L-208, which has already been discussed this morning and I will not refer further to it except to point out that this war order was based on the presumption that gold was a nonessential industry in time of war.

Now, there can be no doubt that gold is one of the most important strategic metals in time of war and the suspension of gold mining on the grounds that it was a nonstrategic activity can be justified neither in equity nor in experience. All history has demonstrated the supreme necessity of a store of gold to a nation that finds itself at war.

Speaking from my personal experience in wartime service as Treasurer General of Iran, we found, and the U.S. Treasury and the State Department and the military commanders all agreed, that gold was a most necessary material of war and scarce space on airplanes was allotted for the transport of gold from the U.S. Treasury to Teheran. We used it to combat the inflation that was rapidly reducing the country to economic chaos and endangering our military activities in the Middle East.

The fact that the United States at the time held substantial stocks of gold has little bearing on the question. The Government did not close down other nonstrategic activities such as the theater, motion picture, operation of merry-go-rounds, and amusement devices.

The second area of discrimination against the gold mining industry is found in our monetary laws. The issue has been so mingled with politics, sentiment and special interests that it has never been made clear to the public.

Under our banking-monetary system, the Government asserts a monopoly over the market for gold by compelling miners to deliver gold to the Treasury at a price that has been fixed since 1934 at \$35 an ounce.

The Treasury delivers title to this gold to the Federal Reserve System and the Federal Reserve System, by adding to the Government securities or the notes of commercial firms, can create money in the form of Federal Reserve notes or bank credit to the amount of four times the value of the gold received; that is, for each ounce of gold

for which the miner receives \$35 in paper money, not redeemable in gold, the Federal Reserve can issue \$140 of notes, thus having a profit of \$105 on the transaction.

Obviously, an entity that can multiply the purchasing power of an ounce of gold by four times enjoys a preferred position in the market in bidding for goods and commodities.

In other words, gold in the hands of a miner who has won it at the expense of his human labor and effort and investment—and there is still gold being produced by the arduous toil of panning streambeds with human labor—has one value, in the hands of the central banking and monetary system it has another value four times as great.

Here is an obvious discrimination in economic terms. The effect of the process is a gradual inflation in prices of everything the gold miner buys, while the price he receives for his product remains the same.

It is certain, of course, that these statements and reasons will make little impression on a large element in Congress whose constituency is not affected by gold mining.

This brings me to the third reason, No. 2 in my list, dictating some form of compensation to the gold mining industry. This is one that lies in the public interest and is therefore of general concern. It is the question of whether the country or the world, for that matter, has sufficient gold to meet its needs. The question cannot be approached quite so simply as in the case of milk supply, where the legislators may be guided by the counsel of doctors that every child should have, say, a quart of milk a day and consequently, may in the public interest authorize a subsidy to the dairy industry in order to stimulate sufficient production.

In the case of gold, the question is far more abstruse and complicated. Let us note, however, that is a question and an urgent question, today.

At the recent annual meeting of the International Monetary Fund held in this city in early October, the chief preoccupation of the representatives of the 90-odd members was the question of sufficiency of gold. The term used was that of the adequacy of international liquidity, meaning the sufficiency of means of settlement of world trade balances.

Before discussing the meaning of these terms, let us note that this is not the first time that the issue has arisen. It has been before the International Monetary Fund at various times over the past 10 years, particularly since 1958.

Last year, the subject was debated with some vehemence and certain proposals were advanced, but at that time our Treasury officials rejected any thought that there was a shortage of international liquidity. However, this year the Treasury has reversed its attitude and took the lead in forming a 10-nation committee to study the entire question.

At the same time the International Monetary Fund itself announced that it would embark on a major study of the question of international liquidity. The term, "international liquidity" has been variously defined, but there seems to be a growing consensus on its use as meaning the total gold and foreign exchange available to meet the demands of world trade and balance-of-payments settlements.

Foreign exchange means mainly what are called key currencies—that is dollars and sterling—and we might add that sterling is really dollars once removed, since sterling today enjoys international acceptability, largely by reason of the fact that U.S. financial power has stood behind sterling at various crises of confidence.

Your committee is entirely too sophisticated in these matters for me to attempt these explanations of international liquidity, but perhaps for the purpose of the record, and in order to maintain the simplicities, perhaps some further exposition of the subject is desirable.

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It has been customary in business enterprise to treat working capital as the equivalent of cash, since working capital is ordinarily good credit for a bank loan and can thus be converted into cash.

Working capital may be defined as the excess of cash, readily salable securities, and current accounts receivable over current accounts payable and debt maturities falling due within the year.

A business is considered highly liquid if it has a high ratio of short-term assets to short-term liabilities.

However, a firm may find itself suddenly quite illiquid despite a high liquidity ratio. In 1920, for instance, a sudden and extended break in prices reduced the marketable value of inventories, converted many otherwise good receivables into uncollectible debts and cut off bank credit.

In 1932, a similar situation developed, but even those businesses which had large and ordinarily adequate sums in cash were forced into bankruptcy by reason of the fact that cash was not really cash at all but deposits in banks and the banks were unable to deliver cash.

The practice of treating receivables as cash and, therefore, as an element of liquidity, which has repeatedly brought disaster in domestic dealings, is a major element in the current development of international liquidity. In international dealings, gold has emerged as the only ultimately acceptable form of cash for settlement of balances.

Following World War I there developed a substantial increase in the practice by which central banks treated their holdings of gold convertible foreign exchange as prime reserves along with gold in their currency reserves.

The foreign central banks felt safe in regard to dollar deposits since the United States had never suspended convertibility of the dollar and the Federal Reserve banks had ample gold to meet all their note and deposit obligations. Dollar deposits bore interest, of course, and consequently added to the earning power of the central banks.

The system of using receivables instead of cash as central bank reserves became popular, and in no time at all produced a worldwide inflation. It brought on in 1929 a world collapse of credit from which the world still suffers.

The foreign exchange inflation: During the 1920's, you will recall, there was considerable enthusiasm in U.S. investment circles regarding the world outlook, and investors were willing and ready to purchase bonds offered them by reputable Wall Street bankers on behalf of foreign borrowers. These were good investments for the holders could ordinarily take the bonds to their banks and borrow against them to a substantial proportion of the cost.

Let us take a typical instance, with which I had some personal experience at the time while associated with one of the major Wall Street investment houses. An Austrian province negotiated a loan in the New York market. Proceeds of the loan were credited to the borrower in the form of a deposit credit with a New York bank.

May I interpolate by saying there is an omission in my prepared statement and I shall make the statement here.

Against this deposit the Wall Street bank was required to maintain a reserve with the Federal Reserve bank of 13 percent. In turn, the Federal Reserve bank was required to maintain in gold an amount equal to 35 percent of the deposit of the New York bank. On each million dollars of proceeds held by the Austrian province in the form of deposit credit, the reserve was \$130,000 with the Federal Reserve bank.

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The international inflation: The immediate consequence of this operation was to stimulate business activity both in this country and in Austria, not to mention the rest of the world, since the practice had become universal. There arose a new demand for credit, and a demand for all the goods that flow in trade. All this in turn required new banking power to meet the credit needs of borrowing. Thus the inflationary spiral of both credit and business continued to ascend, and all went very well so long as everyone was confident in the future.

Unfortunately, along in 1928, by reason of a number of factors, U.S. investors, particularly the more conservative ones who bought bonds, grew reluctant toward buying more foreign bonds, and in May of 1928 the foreign bond market suddenly collapsed. I recall the event vividly since the bank with which I was associated had underwritten an issue of Danish Government bonds and had been forced to take most of the issue itself by reason of the absence of a market. Thereafter almost no foreign bonds were sold in the U.S. market.

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Again, let us note a few figures. During the years 1915-32 the ratio of gold holdings in this country to total monetary liabilities, by which I mean our circulating notes and demand deposits outstanding, was of the order of 8½ percent. At the present time the ratio is less than 5 percent. In other words, we have reached a far more delicate and tenuous and worrisome situation in regard to the ultimate availability of gold than we did in the period which resulted in the greatest crash in history.

The means taken to solve the 1929 problem of liquidity, while perhaps an unwitting solution, but nevertheless a necessary solution, was that of revaluing the dollar in order to put more gold behind the dol-

lar. It was, in effect, an act similar to a receivership, that pays off creditors in proportion to the assets available. That writedown was of the order of 40 percent.

The meaning of the 1934 revaluation has been largely misunderstood for the reason that it was undertaken consciously to raise prices. It has taken 30 years to demonstrate the correctness of Professor Warren's thesis. Meantime, all the gold made available through that action has been absorbed in the new expansion of credit.

I would like to register that I am not an advocate of gold price revaluation as a means of saving the domestic mining industry, much as I am concerned for the welfare of that industry. I merely state that a revaluation in the price of gold is an inevitable consequence of our monetary mismanagement over the past 30 years and that all the committees and commissions to develop new means of creating international liquidity will be only pitiful failures. I would regret to see any revaluation of gold without at the same time an overhaul of our banking and monetary system to make sure that the credit excesses permitted by our monetary system do not occur again. We have undergone one debasement of our currency. A great power exists as a great power only by reason of its integrity. A second debasement would be a shock to world confidence. The world might survive this shock if the event were used as an occasion to accept the moral responsibilities of money.

What bearing does this discussion have upon the question of a subsidy? It is hardly likely that the bill before you would be fruitful in expanding U.S. gold production sufficiently to meet the world problem which we face by reason of our monetary excesses. What it will do is to prepare the way for the more fundamental solution of the gold question. Continued discussion of the plight of the gold miner serves to keep the gold question before the public eye in its proper perspective, and to report out a bill carrying a subsidy would surely be the most effective way of getting the deeper issues to the floor of the Senate and properly exposed to the public eye. It would be hoped that this would, of course, in some measure assist the mining industry which I need not tell this distinguished committee is one of the most depressed economic segments in the whole spectrum of American industry.

Thank you for the privilege of appearing here.

Senator GRUENING. Thank you very much, Mr. Groseclose.

You anticipate, then, that sometime in the near or not-too-distant future, there will be a revaluation of the dollar?

Mr. GROSECLOSE. I think it is inevitable, and I think you see increasing signs of recognition of that fact among the monetary authorities and in the discussion by the great monetary authorities of the world.

The recent issue of the London Banker has an article which intimates as much.

Senator GRUENING. Do you think we should hurry this legislation to anticipate this development?

Mr. GROSECLOSE. I think you should proceed with this legislation in the interests of the gold miners as you have done so, Senator. It will have an effect upon the larger question, but I hope it will also help the gold miner.

As you pointed out in your statement, several countries have gold subsidies—Australia, South Africa I understand has some means of compensating the high-cost producers, the Philippines, Canada, all have some form of subsidy.

Senator GRUENING. Well, we are very grateful to you, Mr. Groseclose. You have always been a most helpful witness at these hearings. I just hope that your efforts and your cooperation will not be in vain. We hope that something will be produced as a result of these hearings.

Mr. GROSECLOSE. Thank you for your efforts.

Senator GRUENING. Senator Mechem?

Senator MECHEM. No, sir.

Senator GRUENING. Thank you very much.

Now, the Department of Interior promised to send Charles W. Merrill, Chief of the Division of Minerals and Mines, here, but I don't see Mr. Merrill.

**STATEMENT OF J. PATRICK RYAN, BUREAU OF MINES,
DEPARTMENT OF THE INTERIOR**

Mr. RYAN. Mr. Merrill didn't come this morning. I guess Interior is not going to have a witness.

Senator GRUENING. May I ask your name?

Mr. RYAN. Ryan.

Senator GRUENING. Are you prepared to make a statement?

Mr. RYAN. No, I am not. I am just here as a reporter.

Senator GRUENING. You are just here to be an observer?

Mr. RYAN. That is right.

Senator GRUENING. Well, I hope what you have observed will be taken back to the Department of the Interior with beneficial effects. Glad to have you here.

Are there any other witnesses that would like to be heard that are not scheduled?

If not, we will adjourn, subject to the call of the Chair.

I am going to request that the staff, both the counsel of the committee and counsel for the Senator's office, transmit Mr. Day's letter to the witnesses and ask for their comments and see whether we can't work out an improvement to the present bill.

We will then discuss with Interior and other agencies preparatory to our calling an executive session to discuss action on this bill.

At this point in the hearing record we will include a copy of S. 2125 followed by the statements, letters, and telegrams mentioned in my opening remarks.

(The bill and communications follow:)

[S. 2125, 88th Cong., 1st sess.]

A BILL To revitalize the American gold mining industry

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, This Act shall be known as the "Gold Mine Revitalization Act of 1963".

SEC. 2. PURPOSE.—For the purpose of aiding and restoring to profitable operation the domestic gold mining industry of the United States the Secretary of the Interior is hereby directed to establish and administer a program to compensate domestic producers of gold for the difference between base average

costs of operation on January 1, 1940, as determined by the Secretary and the same or equivalent current costs of individual operators qualified for assistance under this Act.

SEC. 3. COSTS OF OPERATION SUBSIDIZED.—Costs of operating domestic gold mines for which differential payments will be allowed shall include—

- (a) costs of labor;
- (b) costs of amortization of capital investment in equipment and construction necessary to efficient operation;
- (c) costs of mine rehabilitation;
- (d) costs of transportation.

SEC. 4. ELIGIBILITY REQUIREMENTS.—To qualify for cost differential payments under this program, an applicant shall—

(a) make a showing, by application to the Secretary, that for the period for which assistance is requested costs of efficient operation are at a level in excess of an amount at which the applicant can anticipate earning a reasonable profit during the period for which application for assistance is made;

(b) demonstrate existence of financial resources and technical capability sufficient to operate profitably, on the condition assistance under this Act is allowed;

(c) agree that, for the period of time for which assistance is received the applicant will operate gold mining properties in the United States as his principal occupation. No producer shall be qualified for assistance under this Act unless the dollar value of gold sold during the period payments are made is 50 per centum or more of the total value of all minerals and metals contained in ores and concentrates produced and sold.

SEC. 5. AMOUNT OF PAYMENTS ALLOWABLE.—Payments under this Act shall be in such amounts as may be necessary to carry out its purpose, except that—

(a) no such payment shall, in any case, exceed the difference between base average costs of production of gold on January 1, 1940, and current individual costs of the producer;

(b) no differential computed under (a) shall exceed, in proportion, the difference between the cost of living index for January 1, 1940, and the cost of living index as of date of application for payment;

(c) no payment to an individual producer shall exceed an amount necessary to allow return of a reasonable profit during the period for which payments are made.

SEC. 6. DETERMINATION OF ELIGIBILITY AND NEGOTIATION OF AGREEMENTS.—(a) Producers of gold may apply to the Secretary of the Interior for gold production differential payments under this Act who shall determine (1) the eligibility of the applicant, and (2) amount of payment necessary to enable the applicant to operate at a reasonable profit during the period for which application is made.

(b) Upon determination of eligibility of a producer for payment the Secretary shall enter into a gold production differential payment agreement which shall contain such terms and conditions as the Secretary and the producer shall agree upon, including, but not limited to (1) the manner in which costs shall be ascertained for purposes of making payment; (2) terms and conditions for making payments; (3) conditions under which payments shall be withheld or reduced.

SEC. 7. BOARD OF GOLD DIFFERENTIAL PAYMENTS REVIEW.—(a) There shall be established in the office of the Secretary an independent Board of Review of three members to be appointed by the Secretary, the Chairman to be designated by the Secretary, that shall be responsible for a continuing review of the level of payments under this Act to determine if they are sufficient or in excess of amounts required to accomplish its purposes.

(b) The Secretary shall, by regulation, establish a procedure for review by the Board of Review of applications of producers whose claims are denied, disallowed in part or reduced. Producers shall have an opportunity to submit reasons in support of their claims before final action of the Secretary.

(c) Members of the Board of Review shall be appointed by the Secretary from among individuals qualified by reason of experience in the mining industry, two of whom shall have had experience in gold mining.

(d) The Board of Review shall be required to meet quarterly. Members shall be paid at the rate of \$50 per day for each day services as a Board member are

required and shall be reimbursed for actual and necessary travel expenses and per diem in accordance with the Travel Expenses Act of 1949.

SEC. 8. The Secretary of the Interior shall prescribe such rules and regulations as may be necessary to carry out the provisions of this Act.

SEC. 9. There are authorized to be appropriated such amounts as may be necessary to carry out the provisions of this Act.

STATE OF ALASKA,
OFFICE OF THE GOVERNOR,
Juneau, October 21, 1963.

HON. ERNEST GRUENING,
U.S. Senator,
New Senate Office Building, Washington, D.C.

DEAR SENATOR GRUENING: I am appreciative to you for the opportunity extended me to submit a statement for inclusion in the record of the hearings being conducted by the Subcommittee on Minerals, Materials and Fuels on your bill, S. 2125.

No other single governmental action would lead more directly to major production of all metals in Alaska than would enactment of legislation to eradicate or mitigate the burden imposed upon the mining industry by the forced sale of gold at its 1934 price.

That this need exists is immediately apparent by the decline in gold mining employment in Alaska from a level of more than 4,000 men to less than 500. This decline has not resulted from a lack of gold. Many unmined deposits remain in Alaska and elsewhere. Only the prospect of realistic return upon investment is needed to bring about production.

The enclosed copy of map MR-32, prepared by the U.S. Geological Survey, shows the existence of lode—or hardrock—gold mines in Alaska. All of these are now closed. At my direction, the Alaska Division of Mines and Minerals has added the placer—or gravel—gold mines. Only a few of those shown are now in operation.

It is obvious from inspection of the map that the resumption of gold mining would revive activity throughout the mineralized zones of Alaska. In the past, gold miners have found that these mineralized zones contain not only gold but copper, lead, zinc, tungsten and other metals as well.

During the depression of the 1930's, when gold mining was at its peak, there was no incentive to develop or produce those metals of which there was then an oversupply. Today our Nation imports a number of needed base metals, adding unnecessarily to the unfavorable balance of payments.

From your knowledge of Alaska, you are aware that the effect of any revitalization of the gold mining industry—as shown by this map—would be felt most beneficially in the outlying depressed areas of our State. It is not exaggeration to state that giving new life to the gold mining industry in Alaska would all but eliminate need for our present relief programs. The savings from this source alone would go far toward offsetting the possible costs resulting from enactment of S. 2125.

I am strongly in accord with the purposes of S. 2125 and would consider enactment of legislation making possible the revival of the Nation's gold mining industry to be in the best interest of the collective and individual segments of our national economy.

Kindest regards.

Sincerely,

WILLIAM A. EGAN, *Governor.*

(The map referred to is in the files of the committee.)

DAY MINES, INC.,
Wallace, Idaho, September 19, 1963.

Re S. 2125.

HON. ERNEST GRUENING,
Senate Office Building, Washington, D.C.

DEAR SENATOR GRUENING: Since receiving your letter of August 26th containing draft of proposed statute providing subsidies for gold mining costs to equalize

the increases which have occurred since 1940, I received from another source the Committee Print of September 3, 1963, which I was told might be introduced as S. 2125. I note that this print follows rather closely the enclosure which is labeled "Draft—8/21/63." I was absent from the office during the month of August and am just now getting around to catching up with accumulated business.

I have several criticisms to make and suggestions to give you concerning this proposed legislation. I had considerable experience during World War II with the premium price plan for copper, lead, and zinc which provided subsidies for miners of these three metals based on his cost of production. This experience was highly unsatisfactory and it was not until Senator James E. Murray, chairman of Interior and Insular Affairs, held hearings in Helena, Mont., on the performance of the premium price plan in August 1945, right at the time the first two atomic bombs were dropped on Japan, that we were able to get our justified criticisms even listened to. One great difficulty was the latitude given to the officials in Washington, D.C., who operated the premium price plan.

Consequently, I object to such phrases as "period of time for which such assistance is requested or required" which appears in article 4, sections (a) and (c). I also think that "a reasonable profit" appearing in article 5(3) should be clearly set forth. Referring to "such terms and conditions as the Secretary and the producer shall agree upon" appearing in article 6(b), I ask what happens if the two parties fail to agree?

I have certain specific suggestions with respect to article 2 and my redraft is as follows:

SEC. 2. Purpose.—For the purpose of aiding and restoring to profitable operation the domestic gold mining industry of the United States the Secretary of the Interior is hereby directed to establish and administer a program to compensate domestic producers of gold for the difference between individual base average costs of operation during the fourth quarter of 1939,¹ of currently eligible mines, as determined by the Secretary and the same or equivalent current costs of individual operators qualified for assistance under this act, and the fourth quarter of 1963, similarly determined.² In the event that individual base average costs of operation are not truly representative during the fourth quarter of 1939, then they shall be reconstructed from the best available data.³

Article 3, in my opinion, needs to be made much more explicit. For the purpose of giving anyone who might be authorized to make another draft of this measure, on the following pages will be found schedules A and B which list the names of certain mining and milling account expense distributions for a small silver-lead mine in Idaho and a small gold mine in Washington. Both of these properties are operating or have operated recently. The names of the accounts are actually time tested through experience. Accordingly, I have rewritten article 3 as follows:

"SEC. 3. COSTS OF OPERATION SUBSIDIZED.—Costs of operating domestic gold mines for which differential payments will be allowed shall include:

- "(a) Costs of all labor including clerical, supervision, management, administration, and technical;
- "(b) Costs of unemployment compensation and fringe benefits;
- "(c) Costs of supplies and materials, and power;
- "(d) Costs of State, county, and city property taxes;
- "(e) Costs of amortization of capital investment in equipment and construction necessary to efficient operation;
- "(f) Costs of mine rehabilitation;
- "(g) Costs of transportation of mine products, smelter freight, treatment, and deductions; and
- "(h) Costs of such other expenses as are usual, customary, and normal according to accepted, sound, modern mining practices."

¹ There is no such thing as a cost of mine operation on a single day such as Jan. 1, 1940. Individual base averages should be determined over a period not less than 3 months, and I am suggesting as a minimum the 4th quarter of 1939. More representative costs would be utilized if the entire year of calendar 1939 were used.

² The preceding clause containing 8 words is necessary.

³ This sentence is suggested to provide for those cases when mining costs during the third quarter of 1939 (or the calendar year 1939) are not truly representative due to strikes or other production stoppages, starting up costs or anything of an unusual nature.

SCHEDULE A

*Expense account distributions for a small silver-lead mine (200 tons per day)
in Idaho*

MINING	MILLING
Mine expense:	Operating expense:
*Underground labor	*Operating labor
*Surface labor	Other labor
Mine clerical labor	*Superintendence
*Superintendence	Miscellaneous supplies
Engineer salaries	*Grinding balls
Geological salaries	Liners
Timbers	Reagents
*Explosives	*Power
Drill repairs	Fire insurance
Bits	Shop expense
Drill steel	Warehouse expense
*Miscellaneous operating expense	Assaying expense
Pipe and fittings	Tailings disposal
Rail	Compensation insurance
Shop expense	Social security taxes
*Warehouse expense	Vacations
Engineering and geological expense	Paid holidays
Heating	Fringe benefits
*Power	
Diamond drilling	
Fire insurance	
Use and occupancy insurance	
*Workmen's compensation insurance	
Social security taxes	
Vacations	
Paid holidays	
*Fringe benefits	
*Largest cost items per dry ton.	

SCHEDULE B

*Expense account distributions for a small gold mine (300 tons per day)
in Washington*

MINING	MILLING
Mining expense:	Operating expense:
*Mining labor	*Operating labor
*Engineering salaries	Other labor
*Equipment repair and maintenance labor	Superintendence
Timber and nails	Miscellaneous supplies
*Blasting supplies	*Grinding balls
*Drill repair, bits and steel	Liners
Pipe, hose, pump and fittings	Reagents
*Shop supplies and expense	*Power
Building maintenance	Assaying expense
Gas, oil and grease	Heating
Electric power	Equipment repairs: Materials
*Assay expense	Tailing pond: Materials
Dry house expense	Insurance expense
*Repair and supplies, equipment	Industrial insurance and medical aid
Ore truck expense	Payroll taxes
*Office expense and telephone	Administrative expense
*General mine supplies and expense	
*Payroll taxes	
*Insurance: Industrial, medical, health	
Insurance: Fire and liability	
Rentals	
*Largest cost items per dry ton.	

I have also taken the liberty of rewriting article 4, but limited to paragraph (a). It appears below. I find 4 (b) and (c) to be very satisfactory.

"SEC. 4. ELIGIBILITY REQUIREMENTS.—To qualify for cost differential payments under this program, an applicant shall—

"(a) Make a showing by application to the Secretary, that for the *period for which assistance is requested*⁴ costs of efficient operation are at a level in excess of an amount at which the applicant can anticipate earning a reasonable profit during the period for which application for assistance is made. This application may be limited to a single ore body or it may include nonprofitable ore bodies of presently profitable mines, each on an individual basis."⁵

I trust that my suggestions may be helpful. I am very much intrigued by your proposed subsidy in the form of a differential between costs of 23 years or so ago and the present time. Incidentally, I think the whole objective of any gold incentive program is to increase the U.S. output to the rate which prevailed in 1941 which was 6 million ounces annually. As you know, for the last couple of years the U.S. output has been only about one-fourth of this figure.

With all good wishes.

Sincerely,

HENRY L. DAY.

STATEMENT OF HENRY L. DAY, PRESIDENT, DAY MINES, INC.

My company is at present a profitable producer of gold-bearing ores and is one of the very few underground mines qualified to use the adjective "profitable." We do not believe that this salutary situation can long continue. Our experience in gold mining goes back 30 years, unfortunately too few of which were profitable, and thus from experience we know of the difficulties inherent in an industry wherein the price received for one's product remains constant, and wages, salaries, supplies, materials, equipment (practically every item comprising total costs), persistently increase year by year.

Under such adverse vicissitudes it is remarkable that there is any U.S. gold output at all, other than byproduct gold from the winning of ores of other metals. With costs 2 to 3 times today what they were prior to World War II, placer mining has become a lost art; gold dredging, the most highly mechanized form of mineral production, is a fading memory; while underground gold mines are not "holes owned by liars," but by dour-faced, last-ditch, onetime optimist, all but broken in spirit, desperately clinging to last vestiges of hope, and hope alone.

This committee has within its power to rekindle that hope by approving S. 2125, which would equalize the costs of operation at present with those that prevailed on January 1, 1940. This worthy objective would be accomplished by authorizing the Secretary of the Interior to pay to those miners who qualify, the cost differentials necessary to equalize present conditions with past conditions. Efficient operations, technical capabilities, and financial resources would be prime requisites. Such assistance would be limited to those producers whose dollar sales of gold are more than 50 percent of the sales of all minerals and metals contained in the ores.

We endorse this principal of Federal assistance, as after all it is the Federal Government that has decreed that a gold miner's product must be sold only to that Government at a price it fixed at \$35 per ounce, nearly 3 decades ago. Also, domestic employment would be increased in many depressed areas.

Certainly no one can reasonably wish for gold mining to die out in the United States when there is such an alarming dearth of gold monetary reserve in our country. Yet, inexorably, such is the fate of our industry unless Congress takes action. U.S. production has shrunk to 1,500,000 ounces annually from a rate of 6 million ounces in 1940. This bill, if enacted, will go a long way toward increasing gold production to that former level.

I would like to make only one suggestion to the subcommittee and that is to include language which would permit new mines or old mines which were not operating on January 1, 1940, to reconstruct costs as of that time for the purpose of making application for differential payments.

⁴ I recommend that the period be made more explicit. If, however, it is to be for an indefinite period into the future I think this should be so stated.

⁵ There are several situations of this type which I believe should be covered by the last sentence added by me.

THE COLORADO MINING ASSOCIATION,
Denver, Colo., October 21, 1963.

HON. ERNEST GRUENING,
Chairman, Subcommittee on Minerals, Materials, and Fuels, Senate Interior Committee, Senate Office Building, Washington, D.C.

DEAR SENATOR GRUENING: The Colorado Mining Association, with members in most of the mining States as well as a large number of Eastern and Southern States, wholeheartedly endorses the enactment of S. 2125, legislation which would authorize payment to domestic gold producers based on the difference between costs of production as they were in January 1, 1940, and cost of production today.

The Colorado Mining Association has consistently urged upon the Congress the enactment of legislation which would permit the resumption of profitable gold mining operations within the United States. The resumption of these operations would not only reduce unemployment in the areas, such as Cripple Creek in which gold mining was formerly conducted upon a profitable basis, but it would lessen to a large degree welfare and relief loads in these and contiguous areas.

Gold mining provides a market for numerous manufactured goods, products of farms and ranches and professional and technical help as well. Stock interests in mines formerly producing gold are held by numerous residents of Eastern and Southern States as well as those who reside in the West, and these people have been deprived of an income from their investments by arbitrary regulations imposed upon a fundamentally sound industry which has contributed much to the growth and security of the United States.

It is well recognized that at the time of the imposition of the gold mine closing order L-208 that vague promises were given to the industry that, subsequent to the unfortunate closing order and the resumption of peace, the gold mining industry would receive proper increases in the price of its product in conformity with the increased costs of production.

While the industry has consistently through its representative organization presented statistics and factual data which justify a recognition of the present status of the industry, no remedial legislation has received approval by the executive departments of our Government, and consequently no legislation has been enacted. Producers in areas outside the United States have received consideration from their respective governments, particularly in Canada and Australia.

It is respectfully submitted that the benefits to be derived from such a program will strengthen the economy of the country and add to the supply of gold, which eventually will advance on the world markets as has the price of silver resulting in a substantial profit to the Government of the United States.

The legislation under consideration by your subcommittee is supported by the membership of the association and by action of the board of directors at a regular meeting held in Denver on October 18, 1963. We will appreciate your continued active support of legislation under consideration by your committee, and sincerely trust that as a result of these hearings the committee will be successful in enacting legislation long overdue, such as that included in S. 2125.

Respectfully,

ROBERT S. PALMER.

DULUTH, MINN., *October 22, 1963.*

HON. ERNEST GRUENING,
*Alaska Senator,
 New Senate Office Building, Washington, D.C.:*

To compensate increasing loss of gold reserves, sincerely urge passage of S. 2125 for increase of gold production United States. Our small company now holds leases two gold properties on which production would commence immediately bill is signed. This is the case of a large number of concerns holding marginal gold dredging claims or lode mines which are uneconomic today due to increased costs. Unless gold production is substantially increased, ultimate devaluation of the dollar is inevitable. There are substantial quantities of gold in low-grade reserves which will shortly come into production whenever the balance between price of gold and cost of production is corrected. Strongly urge immediate passage of S. 2125.

WARREN S. MOORE.

JUNEAU, ALASKA, *October 22, 1963.*

HON. ERNEST GRUENING,
*U.S. Senator from Alaska,
Senate Office Building, Washington, D.C.:*

I wish to express my support for bill S. 2125. Gold mining has been a vital segment of our economy and should be revived. Your efforts are much appreciated.

CHARLES W. KIDD,
Vice President, National Bank of Alaska, Juneau.

REPUBLIC, WASH., *October 22, 1963.*

Senator ERNEST GRUENING,
Senate Office Building, Washington, D.C.:

Urge passage of your gold incentive bill to restore gold mining to its rightful place as a thriving industry.

At present operating costs of the 1934 gold price is completely unrealistic.

ROLFEW TUVE,
Republic News Miner.

JUNEAU, ALASKA, *October 22, 1963.*

Senator ERNEST GRUENING,
*Subcommittee Chairman, Mining Hearing,
Senate Office Building, Washington, D.C.:*

Gold mining vital to economy of Alaska as well as Treasury.

We wish to express our support of S. 2125.

Get the miners back, the gold out.

Our kindest regards.

ALBERT PARKS,
President, Mount Parker Mine.

SPOKANE, WASH., *October 18, 1963.*

Senator ERNEST GRUENING,
Senate Office Building, Washington, D.C.:

Urge passage of your mining incentive bill to meet today's operating cost over the depression price of det and ounce for gold. Your bill would restore gold mining as an active and thriving industry and fill ghost towns of the West with well-paid miners.

REPUBLIC CHAMBER OF COMMERCE,
BERTHEA CORNELIUS
President, Republic, Wash.

REPUBLIC, WASH., *October 18, 1963.*

HON. ERNEST GRUENING,
*Chairman, Senate Subcommittee on Minerals,
Washington, D.C.:*

In full support of your gold subsidy bill have urged Washington Senators to cooperate with you to the fullest extent possible. Advise if we can be of any assistance.

R. R. INBODY,
President, Ferry County Prospectors & Miners Association.

REPORT ON LEGISLATION IN CANADA ON PAYMENT OF SUBSIDIES FOR EXPLORATION
AND PRODUCTION OF MINERALS

(Prepared by Walter H. Zeydel, Assistant Chief, American-British Law
Division, Law Library, Library of Congress)

Assistance payments for producers of gold and bituminous coal subsidies
are in effect in Canada at this time.

GOLD MINING ASSISTANCE

The Emergency Gold Mining Assistance Act was enacted in 1948, for an initial period of 3 years to help the gold mining industry to meet the greatly increased costs of production, for which there has been no compensating increase in the selling price; this is based on the Royal Canadian Mine price of \$35 per ounce, U.S. funds.

The act was designed primarily to assist the high-cost or marginal mines to continue in operation during the difficult period following the war, thus maintaining their labor force, and so continuing to contribute to the support of their dependent communities.

To qualify as a gold mine under the act, gold production in any year must amount to at least 70 percent of the value of the mines output for that year.

The act has been amended and extended from time to time, as the conditions it was designed to alleviate still continued; the latest extension covering the years 1955-63.

The original formula was based on two factors, the rate of assistance and the part of production to which it applied. These factors have been modified from time to time to meet changing conditions. The number of assistance ounces was formerly dependent on the number of ounces produced in a base year as defined by the act. This factor is omitted from the present formula in order to supply calculation and to insure an equitable distribution of payments to those receiving assistance.

Sections 3 and 4A of the Emergency Gold Mining Assistance Act establish the regulations governing subsidy payments (called "assistance payments").

It is provided that:

"3. The Minister may pay to a person engaged in operating a gold mine a sum not exceeding an amount calculated in the manner prescribed in this section with respect to gold that is produced from the mine during a designated year and that, during the designated year—

"(a) is sold to Her Majesty at the Royal Canadian Mint, or

"(b) is exported from Canada, in the form of ore or ore concentrates containing gold, and sold.

"4A. (1) This Act applies in respect of gold produced from a mine and sold in any of the calendar years 1955 to 1963, both inclusive, subject to the following modifications:

"(a) the expression "designated year" includes the calendar years 1955 to 1963, both inclusive;

"(b) the sum that may be paid in respect of the gold produced from a mine and sold in a designated year is

"(i) in the case of a mine in which the first year of production commenced prior to the designated year, an amount equal to the product of the rate of assistance for the mine for that designated year multiplied by two-thirds of the number of ounces of gold produced from the mine and sold in that designated year, and

"(ii) in the case of a mine in which the first year of production commenced during the designated year, an amount equal to the product of the rate of assistance for the mine for that designated year multiplied by two-thirds of the number of ounces of gold produced from the mine and sold in that designated year after the commencement of the first year of production;

"(c) where the first year of production had not, on or before the 30th day of June 1951, been established by or pursuant to paragraph (e) of subsection (1) of section 2, the expression "first year of production" means the period of twelve months immediately following the day on which the mine came into production for the purposes of subsections (5) and (6) of section 83 of the Income Tax Act, or, in the case of a mine to which that section did not or does not apply, the day the Minister determines would have been the day on which the mine came into production for the purposes of that section if it had applied to it; and

"(d) the expression 'rate of assistance' for a mine for any period means the amount that is two-thirds of the amount by which the average cost of production of gold from the mine during the period exceeds twenty-six dollars and fifty cents, but not in any event exceeding twelve dollars and thirty-three cents.

"(2) Notwithstanding anything in this section, the amount of assistance that may be paid in respect of gold produced and sold in the designated years 1958 to 1963, both inclusive, is the amount that may be paid under the provisions of this Act other than this subsection plus twenty-five per cent of that amount."

Matters regarding the ministerial power to determine questions relative to payments are discussed in section 5 of the act.

The Minister of Mines and Technical Surveys is authorized to resolve any question that is necessary in order to ascertain whether under the provisions of the act payments may be made to a person and the amount to be paid.

In cases where it is evident to the Minister that the normal operation of a mine has not been carried on during any period for the purpose of reducing the production of gold from the mine in that period and increasing the production of gold from the mine in another period and the amount that may be paid under the act in respect of gold produced from the mine during the latter period, he may direct that such portion of the gold produced from the mine in the latter period shall be deemed to have been produced in the first mentioned period as would have been produced in that period, in addition to the gold actually produced therein, if the normal operation of the mine had been carried on during that period.

The Minister also, under the terms of the act, is authorized to fix the average cost of production of gold produced from a mine in the case of contracts between corporations regarding the operation of a mine.

Provisions are made for the inspection by the Minister or a person authorized by him to enter and examine a mine from which the gold is to be produced. Such person is also permitted to have access to and examine the books and records of the person operating the mine with respect to the cost of production.

Finally, the person operating the mine is required to furnish or make available to the person so delegated by the Minister information relating to the production of gold from the mine or the cost of production of such gold for any period.

The Governor in Council is given authority under the act to make regulations concerning various matters pertaining to the administration of the act. Regulations have been affected by the Governor in Council by emergency gold mining assistance regulations (SOR/60-40k Canada Gazette, pt. II, vol. 94 (P.C. 1960-1162), pp. 1208 ff.). They include such provisions as:

1. Forms necessary for the administration of the act and procedure for making application for payments.
2. Amount or method of calculating the amount that may be included in cost of production of gold from a mine for any period in respect of depreciation, amortization of preproduction expenses, costs of exploration, and development in the mine.
3. Rules pertaining to suspension of operations.
4. Mined ore of which the gold has not been separated from ore or concentrate.
5. Gold produced from concentrates.
6. Minimum production.
7. Advance payments.
8. Records to support application to be kept by person who makes application.
9. Person operating mine must have lawful possession of mining rights.

Penalties are provided for wilfully furnishing false information or knowingly making false returns in any application under the act.

The Minister is instructed to lay before Parliament yearly a report on the administration of the act.

COAL BOUNTIES

At present the only bounties that are granted in Canada are those on coal. The bounty on coal is the result of a recommendation of the Royal Commission on Maritime Claims.

Bounties are paid on bituminous coal mined in Canada by order of the Canadian coal equality regulations¹ issued under the authority of the Canadian Coal Equality Act.

The regulations provide that "every manufacturer of iron or steel in Canada shall, so long as the provisions of tariff item No. 1019 in schedule B to the customs tariff remain in effect, be entitled to payment out of the con-

¹ SOR/54-410 in Canada Gazette, Sept. 22, 1954, pt. II, pp. 1238-1239.

consolidated revenue fund of 49½ cents per ton of bituminous coal mined in Canada and converted into coke by a proprietor of coke ovens at his coke ovens in Canada and used by such manufacturer in the smelting in Canada of iron from ore in the manufacture in Canada of steel ingots or steel castings."

Sources

- Canada. Emergency Gold Mining Assistance Act, 1948 [consolidation as amended to date].
 Gold Mining Assistance Regulations in Canada Gazette, volume 94, part II, SOR/60-401, page 1208 ff.
 Canadian Coal Equality Act, in Revised Statutes of Canada, 1952, chapter 34.
 Dominion Coal Board Act, 1947, in Revised Statutes of Canada, 1952, chapter 86.
 Dominion Coal Board. Thirteenth Annual Report, 1961.

APPENDIXES

1. Emergency Gold Mining Assistance Act [consolidated text as amended to date].
2. Summary of operation for the year 1961 of the Emergency Gold Mining Assistance Act.

REPORT ON GOLD-MINING INDUSTRY ASSISTANCE ACT (COMMONWEALTH OF AUSTRALIA ACTS, 1954, No. 79, AMENDED TO 1961)

This act was originally passed in November 1954. Briefly, it provided a subsidy of 30 shillings an ounce to small producers whose individual output did not exceed 500 ounces annually. Large producers received a subsidy of up to A£2 an ounce according to an established formula but, inclusive of the subsidy, the annual total profit could not exceed 10 percent of the invested capital. Amendments of 1957, 1959, and 1961 resulted in more liberal subsidies for the industry. Outside of a few large marginal producers, the act was chiefly designed to help small producers.

* * *

ANALYSIS OF THE ACT AS AMENDED

This act applies to gold-bearing minerals obtained by mining and produced as bullion.

Subsidies are paid to large and small producers. They are not payable in regard to bullion produced in a year by a person who is a large producer in relation to that year unless the bullion was produced from mining property in respect of which the producer has obtained approval at the time the bullion was produced.

In order to be eligible for a subsidy, a producer must obtain the approval of the Treasurer of the Commonwealth. The instrument of approval must state that the person applying is a producer in respect of a mining property and that this was a property upon which he is entitled, under the law of a State or Territory of the Commonwealth, to carry on mining for gold and which in the opinion of the Treasurer is a separate mining property.

The act applies to mining done in the year 1955 and 7 following years.

Subsidies are payable to the producer on a yearly basis.

A producer is eligible to collect a subsidy only if the value of the gold mined exceeds the value of other substances obtained or obtainable from minerals so obtained.

Subsidies are not payable in respect of bullion produced in a year by large producers in a year unless the cost of production for each ounce of fine gold contained in the refined gold produced is in excess of 13 pounds, 10 shillings (approximately \$39.20).

The amount of subsidy payable with regard to bullion produced in a year to large producers is figured by multiplying—

(a) An amount equal to three-quarters of the excess referred to in the last preceding paragraph; or

(b) Three pounds, five shillings whichever is the lesser, by a number equal to the number of ounces of fine gold contained in the refined gold produced from the bullion.

The amount of subsidy payable to a small producer with respect to bullion produced in a year is figured by multiplying 2 pounds, 8 shillings by the number of ounces of fine gold contained in the refined gold produced from the bullion.

For the purposes of the ascertainment of subsidy payments in relation to bullion produced by a larger producer, the cost of production for each ounce of gold produced from bullion is the sum of the amounts determined by the Treasurer to be—

(a) The average cost, for each ounce of that fine gold, of mining the minerals from which the bullion was produced, and producing the bullion from those minerals; and

(b) The average cost, for each ounce of that fine gold, of producing the refined gold from the bullion.

Allowances in figuring cost of production are made for plant and machinery depreciation, the cost of administration, and development of the mining property.

The Treasurer is given authority to disallow or vary the amount of cost incurred by a producer where—

(a) Bullion or refined gold has been sold by the producer referred to in the next succeeding paragraph or by another person, at a price in excess of a price based on a value of 15 pounds, 12 shillings, sixpence per ounce of fine gold;

(b) A producer has received, or is entitled to receive, moneys representing the amount of the excess or a share in that amount; and

(c) In the opinion of the Treasurer, the right of the producer to receive those moneys in relation to bullion produced by him in a year; the subsidy otherwise payable in respect of bullion produced by the producer in that year shall be reduced by the amount of those moneys.

Where the net profit of a large producer resulting from the production and sale of bullion for a year taking into account the subsidy payable would exceed profit at the rate of 10 percent per annum on the capital used by the producer the subsidy is reduced by the excess amount.

When, in the opinion of the Treasurer, the net profit of a producer for the first year is less than the 10 percent per annum on the capital used by him, in production, the Treasurer may make allowances as he thinks fit. Provisions to be taken into account in making such allowances and adjustments are established to guide the Treasurer in reaching his decisions.

The recovery rate for a mining property in respect of a year is a number ascertained by dividing the number of ounces of gold, on a fine gold basis, contained in the bullion produced in that year from minerals obtained from that mining property by the number of tons of those minerals.

Where the recovery rate for a mining property in respect of a year in which this act applies is less than nine-tenths of the recovery rate for that property in respect of the year next preceding the first year to which this act applies, the subsidy otherwise payable in respect of bullion produced by a large producer from minerals obtained from that mining property in the first-mentioned year may, in the discretion of the Treasurer, be reduced by an amount not exceeding the additional income (other than subsidy) that would, in the opinion of the Treasurer, have been derived by the producer if the first-mentioned recovery rate had been nine-tenths of the second-mentioned recovery rate.

The Treasurer is authorized to adjust subsidies in certain cases. For instance, when a producer has delayed production, treatment, or disposal of minerals or substances with the object of obtaining a subsidy or increasing the amount of subsidy payable to him, the Treasurer may, as he thinks fit, adjust the sum payable to such producer.

The producer is required by the act to keep books of account and other records containing information with respect to his mining operations and business for the purpose of determining subsidy claims as well as certified balance sheets, accounts, and other financial information.

The Treasurer is authorized to assign a person to inspect at all reasonable times the property on which mining operations are carried on by producers who claim or have received subsidies. In this connection, the Treasurer may inspect the underground or surface workings and take stock of minerals produced and inspect books and records. Any hindrance or obstruction of such inspection is subject to a fine on the producers of the mine.

Under certain conditions, advances of subsidies may be made to producers by the Treasurer. Overpayments, however, must be paid back.

Penalties, up to 500 pounds or imprisonment for 12 months, are provided for offenses under the act.

The Treasurer is required to submit to the Parliament yearly statements concerning the operation of the act and the payment of subsidies.

The Governor General is authorized to issue regulations that may be required to carry out and give effect to the act.

No regulations have been found in the Statutory Instruments of the Commonwealth of Australia implementing this act.

* * *

An opinion regarding the efficacy of the act is found in the statement of R. J. Agnew, president of the West Australian Chamber of Mines, in 1959:

"Assistance given by the Federal Government to the industry has been appreciated, although for some time it has been felt that such assistance has been of benefit only to a section of the industry and not to the industry as a whole. It is considered that from a long-term point of view it should be the Federal Government's objective to render assistance in such a way that mines should be given the greatest possible help to keep them from coming under the subsidy scheme as it applies today to marginal mines. In other words, assistance should not be withheld until such time as a mining company, for various reasons, such as lack of development, lower grade, and rising costs, is heading toward the day when it would have to cease operations. I am not referring to mines where ore reserves had become exhausted but to those mines which would be forced by economic reasons to cease operations while large blocks and tonnages of lower grade ore still remained in the ground and which would, under more favorable circumstances, be extractable. In a state such as Western Australia there is ample evidence of what occurs when mines go out of operation and the population dependent on such mines abandon the districts entirely. This can be seen in the so-called ghost towns throughout the state which were once flourishing townships. The important point is that in many of these areas large reserves of low-grade ore are still in the ground. It is surely then not desirable that other mines which are today large producers should have to face, ultimately, the possibility of ceasing operations due to lack of assistance which would enable them to prolong their lives for a considerable period. It should be the object of any government in framing assistance to take a long-term view with the object of extracting as much gold as possible from the ground during the lifetime of the industry and not to force the mines into the position where they have to shorten their lives by raising the grade of ore to be mined in order to keep pace with rising costs.

"It was with this object in mind that the deputation presented its case to the maximum subsidy per ounce at present being paid to the so-called marginal Federal Treasurer who was asked to give consideration to an increase in the mines and also to provide for a reassessment of capital used in the business by mining companies whose original capital is out of proportion to the present-day value of capital used in carrying out mining operations" (Industrial Review & Mining Year Book of Australia, 1960, 14th ed., Perth (1961), p. 74).

NEW YORK, N.Y., *October 21, 1963.*

STEWART FRENCH, Esq.,
New Senate Office Building,
Washington, D.C.

DEAR MR. FRENCH: Thank you for your letter of October 15 and your suggestion for me to appear for the hearing on the bill, S. 2125, to revitalize the gold mining industry.

Unfortunately, prior engagements will prevent me from attending the hearing, much as I would like to do so.

However, I will express a few opinions herein, which I would express if I could attend the hearing.

The fetters now imposed on the gold mining industry, when our Government is bewailing the loss of large amounts of its gold reserve, is something that should be given most careful consideration, not only because of the potential increase of those reserves by revitalizing the gold mining industry, but at the same time substantially easing unemployment, which is likewise a problem.

A particular example of what I say above is based on my own experience in gold mining at the town of Jardine, Mont. Here is a potential substantial

gold producer, which is idle and rapidly becoming a ghost town, which, for one reason or another is now controlled by Reconstruction Finance Corporation in liquidation. It has ample facilities and ore reserves to produce more than 300 tons of gold bearing ores per day that could yield up to \$50,000 of gold bullion per day, or around \$1,500,000 per annum.

It would appear to me that while our Government is lavishing multiplied billions of dollars in foreign aid, much of which appears to go down the drain, that it could devote a small fraction of that largess to a revival of its gold mining industry, which would not only help to replenish its gold reserve, but more important, give employment to hundreds of experienced miners, thus easing that problem.

I personally know of at least a half dozen gold mines, now idle in Montana, that could be revived if our Government would do what bill S. 2125 contemplates.

With further reference to the Jardine mining project, now idle, in Montana, it was employing about 200 men and supporting a population of some 600 people, when it was forced to discontinue operations because of too high costs. Its final engineering reports indicated reserves of more than 1,500,000 tons of gold bearing ore, with developing indicating further extensive reserves. Now, that well-known mining town is deteriorating rapidly, with its housing facilities now largely occupied by people on county relief rolls.

It certainly would appear that if our Government can afford to devote billions to foreign aid, it could well afford to do something for its own citizens, by revitalizing the gold mining industry and by so doing open the way for employment of hundreds of mining men, now idle, or on relief.

Thanking you again for your suggestion to comment on bill S. 2125, I am,
Sincerely yours,

WILLIAM H. HAX.

STATEMENT OF DONALD H. McLAUGHLIN, CHAIRMAN OF THE BOARD,
HOMESTAKE MINING CO.

Gentlemen, the hard-pressed gold mining people are deeply appreciative of the good efforts in their behalf on the part of the Members of the Senate who have prepared and submitted bill S. 2125 designated the Gold Revitalization Act.

My views on the gold problem are still the same as those that I expressed in my testimony before this committee on July 17, 1963, at hearings on a bill with similar intent (S. 2173).

Consequently I simply want to repeat my comment that if special aid in some form is not provided soon, all mines in the United States that are dependent on gold alone will be forced to close before many years pass, as profits are extinguished by rising wages and the higher costs of materials used in the operations.

The plan proposed in the present bill is concerned solely with the plight of the gold miners and carefully avoids any involvement with questions of monetary policy.

The concept of relating payments to aid the gold miner to the increase in costs since some basic date is defensible. I would urge, however, that the procedures adopted should be as simple as possible and all factors eliminated that would depend on the opinion of a Government agency concerning what might be regarded as fair for one individual in relation to others. A payment per unit based on the increase in wages and cost of materials going into the production of gold in the specific district since 1940 would take into account two major factors in the rise in costs, though not all. It should be easy to determine in an objective way. Determination of what might be regarded as a reasonable profit should not be left to an executive agency of the Government. Gold mining is a risky business. Many of the prospects that are tested and even mines that are developed prove to be unprofitable. The losses must be recovered by the occasional good property, on which high profits are made. It is this possibility that encourages and justifies a miner in undertaking such enterprises. In my judgment, any aid based on increase in costs should be available to any operator of a gold mine without relation to the profit he might make or hope to make.

Aid given to an operating property, such as Homestake, would be reflected principally in the additional life that would result from it, as a result of the existing plant being used for lower grade ores.

The intent of the present bill, however, is admirable and is to be commended as are all good efforts to stimulate the search for gold deposits and to keep the few going mines alive until conditions favorable for gold mining are again restored.

With these good objectives we are in complete agreement.

SALMON RIVER MINES CO., INC.,
Callahan, Calif., October 16, 1963.

Senator ERNEST GRUENING,
Chairman, Senate Mining Subcommittee,
Senate Office Building, Washington, D.C.

DEAR SENATOR GRUENING: Reference is made to a newspaper item of your subcommittee hearing on October 23-24, 1963.

We wish to present to your honorable committee the following points concerning increased payments to gold miners:

1. This plan to increase the price of gold does not in any way conflict or change the present price of gold purchased for Treasury or monetary use.

2. This plan only concerns the purchase of domestically produced gold used in the jewelry, dentistry, and other industrial uses such as in the space administration.

3. The use of gold in the above segments of our economy is in excess of \$175 million per year and is increasing. The production of domestic mines is approximately \$75 million per year and is not increasing.

4. It will require considerable time before the domestic mining industry can bring production in balance with consumption.

5. A reasonable time for depletion should be allowed similar to other industrial plant deductions.

6. A price of \$80 to be paid miners for newly produced domestic gold for a stated period of time to allow a return of risk investment capital.

7. We must have gold and the use of it if we are to survive as a world power. Our difficulty stems directly from our own created scarcity and poor management of gold.

To overcome the confusion and lack of vision existing in the gold mining segment of our economy it is urgent that a Department of Mines and Minerals be established by Congress to handle all matters in mining now scattered throughout various departments of Government.

With a properly functioning Department of Mines and Minerals proper technical supervision could be given to the mining industry similar to other departments of Government. An effective national mineral policy is necessary to secure a future adequate supply of ore, including supplemental ores from foreign countries.

A long, hard look to the future concerning all minerals in the United States points to the fact that our known ore reserves are in process of gradual depletion within the next several decades. Our future welfare demands action. We are becoming dangerously close to foreign domination in certain important ores.

With foresight and adequate planning since 1942 (approximately 20 years) there would have been produced enough gold to furnish the 3 percent yearly increment needed to balance normal growth. This figure is still acceptable.

If copies of this hearing are available we would appreciate receiving a copy.

Respectfully submitted.

E. C. LATCHEM, *President.*

JEWELERS VIGILANCE COMMITTEE, INC.,
New York, N.Y., October 14, 1963.

HON. ERNEST GRUENING,
Committee on Interior and Insular Affairs,
U.S. Senate, Washington, D.C.

DEAR SENATOR: I am just in receipt of the press release announcing hearings on S. 2125.

Though we will not request time to appear, it is my intention to try and attend the hearing.

May I congratulate you on the fact that this bill will not have any impact on the price of gold.

With all good wishes,
Sincerely,

P. IRVING GRINBERG,
Executive Vice Chairman.

[From the Wall Street Journal, Oct. 28, 1963]

**GOLD GLOOM—SOUTH AFRICAN MINING BOOM NEARS END; WORLD TRADE
COULD FEEL PINCH**

**MORE MINES SHUT THAN OPEN AS NEW DISCOVERIES LAG, UNDERGROUND COSTS
RISE—NINE STRAIGHT RECORD YEARS**

(By Ray Vicker, staff reporter of the Wall Street Journal)

WELKOM, SOUTH AFRICA.—In the past 67 years, the saying that “there’s gold in them thar hills” has come true in South Africa as nowhere else on earth. But, to the possible future discomfort of international traders, there’s a big catch to it these days.

The gold is there all right. Each year South Africa digs over half the gold mined in the world, and 1963 will be no exception. Production is expected to set a record for the ninth straight year, at 28 million fine ounces.

But the gold is no longer easy to mine. As rich seams (called reefs) pay out, mines are boosting output by intensive working of thinner, poorer deposits. The high cost of doing this is beginning to take a toll of marginal producers. And no new discoveries have come along to relieve the pressure.

“Steep slide” coming?

Result: With mine closings already outnumbering openings, executives warn production is pretty sure to top out soon. This probably won’t happen in 1964; production then is expected to rise to 30 million ounces. But “output should level off in 1965, followed by a steep slide in production” in later years, says W. J. Busschau, chairman of Goldfields of South Africa, Ltd., in Johannesburg.

If so, the effects would be felt all over the world. Gold is the ultimate means of financing international transactions, including trade in all kinds of goods and services, and movements of capital investment funds from one country to another. A nation incurring a debt in transactions of any kind with another country usually settles by paying either in gold or in U.S. dollars, which can be turned into the U.S. Treasury in exchange for gold.

There’s no danger the gold supplies on which these money movements are based will shrink. Nearly all the estimated \$73.5 billion worth of gold ever mined is still in use, minus only whatever has been lost in shipwrecks or buried and forgotten, and every new ounce mined adds to the total. The metal is so indestructible that the gold in a living American’s tooth might well have been mined by the slaves of an Egyptian Pharaoh.

Fear of a squeeze

But, even with South African gold production still rising, some monetary authorities fear the increase in world trade and money movements already is dangerously outrunning the increase in the world’s reserves of gold and gold-backed dollars. They liken this situation to a poker game in which the players try to raise their bets without having enough chips.

So a leveling of South African production could produce a squeeze. Since 1929, this Nation has dug about a fourth of all the gold ever mined in history, and since 1886 a third. Last year it mined 25.5 million ounces, which went into government vaults, bracelets, and jewelry for Asiatic gold hoarders, and pocket-sized bars for European hoarders. Russia, mining an estimated 6 million ounces, ran a distant second; Canada, mining 4.2 million ounces, was third. The United States, mining 1.5 million ounces, was even more heavily out-classed.

In the past decade, South Africa has come through handsomely with the required production boosts. Last year’s output more than doubled the 11.9 million ounces mined in 1953.

But the increases have come largely because of the \$1 billion mines have spent developing new properties since World War II, says P. H. Anderson, president

of the Chamber of Mines in the Transvaal and Orange Free State mining areas. Much of this has been spent near Welkom (pronounced Velcome), where refuse heaps of 11 producing mines rise today; the mines work big new deposits discovered just before the war.

Few new properties

No discoveries of similar magnitude are being made today. In all South Africa, only one new gold mine is starting production, and only two other promising properties are being developed, says H. C. Koch, manager of gold operations for Anglo American Corp. of South Africa, Ltd., the world's largest gold mining company.

So, to maintain output, mines increasingly are being forced to work gold reefs that bear little resemblance to the original South African find of a drifter named George Walker. Mr. Walker, in 1886, stumbled over a rock near Johannesburg; bending over to rub his stubbed toe, he saw the gleam of gold.

Today, the gold reef in Anglo American's Western Holdings mine near Welkom is a 4-inch-wide band of pebbly ore sandwiched between quartzite rock: the band slopes downward at a 45° angle and is now being worked 2,600 feet below the surface. Miners dig on hands and knees in a chamber three and a half feet high called a stope; a visitor reaches them by crawling through a tunnel and past steel pit props that keep the stope roof from collapsing. In helmet light the reef doesn't gleam; it looks like petrified gravel rather than gold.

Nor is this reef the deepest or most expensive now being worked. Crown Mines in Johannesburg has produced more gold than any other mine known to history; since 1897, it has dug over 43 million ounces, or about as much as the whole world produced last year. But to maintain output now it has had to burrow to a reef 10,000 feet below Johannesburg and air-condition the working chambers; otherwise, the temperature at that depth would rise to 130° and miners couldn't work. Partly as a result, it's losing money. In the first half of 1963 it dug 156,916 ounces of gold at a working cost of \$35.17 an ounce—17 cents more than the gold sells for on world markets.

Crown isn't alone. The Rose Deep mine near Johannesburg dug 12,303 ounces of gold in the first half of 1963 at a still higher working cost of \$38.43 an ounce, and also lost money. The City Deep Mine in Johannesburg reported a first half loss of \$325,523 on 147,206 ounces of gold mined, which works out to a loss of \$2.21 an ounce. At least three other mines also reported January-through-June losses.

Some mines closing

The losses already are putting some mines out of business. Three closed last year, even as the industry was achieving a production record, leaving 55 gold mines still producing. Of these, the Ellston mine will close soon, and six more have announced intentions to shut down this year or next. Once they do, it's doubtful they'll ever reopen; when a gold mine closes water usually floods its shafts and costs of restarting are often prohibitive.

The toll may grow, too. Another eight mines, including Crown, are considered marginal; either they are already losing money or their operations are dropping toward the break-even point. In gold mining this comes when only a fourth to a fifth of an ounce of gold is recovered from each ton of rock removed from the reef.

For the time being these mines are hanging on, hoping that new efficiencies can reduce costs. But their prospects are dubious. South African gold mining costs have been rising an average of 2.5 percent a year, as gold reefs get harder to work, and few people here expect this process to be reversed—at least not at the older mines. The Chamber of Mines estimates that another 5-percent increase in costs, which at the present rate would come by 1965, could reduce subsequent gold production by 11.5 million ounces a year, presumably by giving the death blow to some mines now at the break-even point.

Block to price boost

Unlike other industries, South Africa's gold mines have little chance of a price increase to relieve these cost pressures. True, they have lobbied incessantly for a gold price boost, and the prospect that production will level off or decline without one may give them a new talking point.

But a gold price increase would amount to devaluation of the U.S. dollar, which American administrations have vowed consistently and vehemently not to

permit. The U.S. Treasury, in effect, sets the world price of gold by offering to sell to anyone from reserves at \$35 an ounce. An increase in that price would make the dollar worth less in terms of gold, thereby lowering its prestige as a world currency and thus probably its value in relation to other currencies.

The major reason why mine closings haven't already cut South African gold production is that newer mines, such as the ones around Welkom, have been increasing efficiency with new techniques. The principal one is concentrated mining. This means working a relatively small number of stopes intensively at any one time, while leaving others temporarily idle. It cuts costs by reducing requirements for ventilation, mine railway trackage, and the like, along with the working area.

Where tried, concentrated mining also has raised output, in part because miners work under closer supervision. Western Holdings, which used to collect ore from 72 stopes at a time, now collects from only 52. But it has raised ore collection per man to 33 tons a month, from 27 previously, and boosted total collections to 200,000 tons a month from the former 175,000 tons.

Faster blasting

Improvements in explosives and in ore collection machinery have helped keep total South African output growing, too. African Explosives & Chemical Industries and Anglo American have developed a fuse which permits a series of blasts following each other more quickly; such blasts have a multiplying effect in loosening rock. Some recent series of blasts have dug as much as 9 feet into mine rock; earlier series used to average only 18 inches.

Still, executives expect the closing of old mines which can't use these techniques effectively to outweigh by 1965 the output boosts the techniques have made possible in newer pits. Once this happens, it could take some time for even new discoveries to raise output again, should any be made. With easily minable gold long since worked out, painstaking geological surveys above ground plus extensive drilling are required now to locate ore, and even if finds are made they can take years to develop. Anglo American estimates it would take \$70 million today to bring in a new mine with a milling rate of 180,000 tons of ore per month, which is considered an economic size.

So, though not all executives agree with Mr. Busschau of Goldfields of South Africa that a "sharp slide" in output is ahead, even the most optimistic don't expect to duplicate the record of the past decade. "South Africa has doubled its gold production in the last 10 years," says C. B. Anderson, deputy managing director of Union Corp., Ltd., a major mining concern. "We'll never do that again."

Senator GRUENING. If there is no further business to come before the meeting we will adjourn. The record will be held open for any added insertions you or others may wish to make. Thank you all for appearing here today.

(Whereupon, at 11:20 a.m., an adjournment was taken, subject to the call of the Chair.)

(Under authority previously granted the following communications were ordered printed:)

SPOKANE, WASH., *October 24, 1963.*

ERNEST GRUENING,
Senator of Alaska,
Senate House Building, Washington, D.C.:

We would appreciate your support of Senate bill 2125 and please try to push through for the benefit of the economy of the United States of America.

E. K. BERNES,
President, Northwest Mining Association.

SPOKANE, WASH., *October 24, 1963.*

Senator ERNEST GRUENING,
U.S. Senate Building,
Washington, D.C.:

We hope you are successful with your efforts on behalf of Senate bill 2125. It is essential to the continued production of gold in this country. After Russian

grain sales are completed we would like to know the true cost to the United States including subsidies, freight, Agricultural Department expenditures, and all other costs of any gold we receive in payment. If gold is received as planned Russia will be the first major recipient of a much higher price for gold than domestic producers are getting.

Best regards.

ESKIL ANDERSON,
Little Squaw Mining Co.

SPOKANE, WASH., *October 24, 1963.*

Senator ERNEST GRUENING,
*U.S. Senate Building,
Washington, D.C.:*

You have our full support on your S. 2125. The plight of the gold mining industry indicates the necessity of immediate legislation.

KARL W. JASPER,
President, Grandview Mines.

SPOKANE, WASH., *October 24, 1963.*

Senator ERNEST GRUENING,
*U.S. Senate Building,
Washington, D.C.:*

Metaline Mining & Leasing Co. is in full accord on your S. 2125 bill to aid our crippled and rapidly dying gold mining industry. Washington State Senators will be asked to support your bill.

KARL W. JASPER,
President, Metaline Mining & Leasing Co.

IDAHO MINING ASSOCIATION,
Boise, Idaho, October 24, 1963.

Senator ERNEST GRUENING,
*Chairman, Subcommittee on Minerals, Materials, and Fuels, Senate Interior and
Insular Affairs Committee, New Senate Office Building, Washington, D.C.*

DEAR SENATOR GRUENING: Since we are unable to have a representative appear personally to testify before the hearings now underway before your Mining Subcommittee on S. 2125, the Idaho Mining Association takes this means of expressing its support of the principle of this legislation and respectfully requests that this letter be incorporated in the hearing record.

At our regular convention in Wallace, Idaho, last summer, the Idaho Mining Association adopted a declaration of policy, including a statement on gold, silver and monetary policy which read in part as follows:

"We strongly urge the adoption of legislation that will immediately and substantially increase the U.S. output of gold and also assure domestic producers a fair economic return."

A copy of the full policy statement is enclosed herewith.

Your proposed bill, S. 2125, is expertly designed to implement such a policy. We strongly endorse the principle of cost equalization on which it is based, but would recommend that some of its provisions, particularly with respect to conditions and terms of eligibility, duration of payments, and determination of "reasonable profit," be spelled out much more explicitly so as to minimize the areas of administrative discretion.

We are convinced that such legislation would have an extremely beneficial effect on Idaho's gold mining industry, which is now practically nonexistent. For the past 2 years (1961-62) our State's gold production has been at an all-time low of less than 6,000 ounces annually and most of this (70 to 75 percent) has been recovered as a byproduct from the base metal and silver ores. This compares with a post-World War II high of nearly 80,000 ounces in 1950, and a prewar high of nearly twice that amount, 150,000 ounces, in 1941.

According to competent mining and geological authorities, Idaho still has vast gold resources, but they have been rendered submarginal by the unprecedented inflation of the postwar years. It has been reliably estimated by a survey last year that, with adequate cost-equalization incentive, our known reserves could

sustain an annual production of 180,000 ounces from a revitalized industry that would provide about 1,600 jobs.

We sincerely believe this type of legislation will serve not only the best interests of Idaho, but also of the Nation and the free world as well. The stimulation of increased domestic gold production would greatly relieve the heavy and increasing pressure on our monetary gold reserves and would strengthen the dollar's position in international markets, thus obviating the continuing need for restrictive expedients which disrupt the normal channels of trade and provoke not only retaliatory measures among our free world allies but also increasing doubt as to the strength and stability of the dollar.

Respectfully submitted,

A. J. TESKE,
Secretary, Idaho Mining Association.

[Enclosure]

DECLARATION OF POLICY—"ONLY THE PRODUCTIVE CAN BE STRONG AND ONLY THE STRONG CAN BE FREE"

The economic life of our country, its security and the future well-being of the free world require, now more than ever, that the productive capacity of the mineral industry of this Nation be second to none.

The necessity for developing a long-range mineral program to accomplish this objective must now become a primary objective of our National Government. Consequently, it is essential that the public land policy, foreign economic policy, tax policy, and Government regulations of the sale of mining securities must be so established and administered as to encourage exploration for, and mining and development of, mineral deposits and to create stability within the mining industry.

Investment of venture capital, cooperation on the part of labor and management, and an enlightened policy of Government toward this great essential mineral industry will constitute vital links in the chain reaching from the untapped sources of mineral wealth to the products which furnish life, security, and happiness to our people.

The Idaho Mining Association, representing all branches of mining in Idaho, pledges a full effort to this end and calls for the cooperation of all other industries in the State. This association adheres to the principle "only the productive can be strong and only the strong can be free."

MINERAL POLICY AND ECONOMICS

A strong, healthy mining industry is essential to our national welfare. We urge the Congress of the United States to enact legislation designed to implement a sound and long-range minerals policy. Such action is long overdue.

Stockpiling.—The Government's stockpiles of strategic minerals and metals are national assets of great value, and are insurance against future emergency requirements. We urge that present stockpiles be used only for national security purposes. Congress should retain full control of existing stockpiles; peacetime disposal should be made only after consultation with affected industries and in such a manner as not to disturb normal marketing conditions and prices.

Import control.—The extraordinary powers conferred on the President by the Trade Expansion Act of 1962 must be exercised with restraint and only after thorough investigation in order to avoid unfavorable repercussions on domestic industry and commerce.

To maintain certain important segments of the domestic mining industry adequate import duties, properly applied, are needed. We recommend that such duties 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.

Protection accorded to any metal or mineral can be effective only if equivalent compensatory customs treatment is established on related metal or mineral items, including semifabricated, fabricated, and derivative products.

Antidumping measures.—The Antidumping Act is intended to prevent the sale of foreign goods in this country at prices less than sales prices in the country of origin. We recognize that procedures for implementing the act have reduced the time required to obtain a finding on dumping. To make the act effective, however, more vigorous enforcement by the Treasury Department, the Tariff Commission, and other Government agencies involved is necessary.

Barter.—We oppose continued use of the barter program for metals and minerals except to fulfill stockpile objectives which cannot be met from domestic sources.

PUBLIC LANDS

We believe the best interests of this Nation will be served in realizing the maximum benefits from our public lands. This can only be done by multiple use to develop its full productive potential.

Careful planning for multiple use is essential and should be based on an honest evaluation of the lands by competent and qualified people, including adequate representation from the States affected, in order that our lands be put to as many uses as the resources permit.

Any mineral legislation enacted should not hinder mineral discovery, exploration, and development, but recognize the scientific advancements of knowledge and equipment, and should clarify and expand the law so that it can be used to aid in the discovery and development of mineral deposits.

MINING LAW

Although the system established by the general mining laws has been effective in stimulating discovery and development of the mineral resources, we recognize the changing scene in mineral exploration. Today the discovery of new mineral deposits results from the use of geological, geochemical, and geophysical techniques which are necessary because of the hidden nature of undiscovered ore deposits. We propose, therefore, that serious and prompt consideration be given to amendment of the mining laws to keep pace with the need to use these techniques.

We recommend that any basic changes in procedure for mining entry in the public domain be clearly spelled out in legislation, leaving a minimum area for administrative interpretation.

We also recommend that the original concept of "discovery" as developed by judicial decisions should be adhered to by all departments of our Government. We condemn decisions of the Departments of the Interior and Agriculture which distort and disregard longstanding precedents and we urge a return to the original concept. We further urge that departmental policies be formulated and carried out with a view to encouraging the development of our mineral resources.

We endorse the efforts of the Rocky Mountain Minerals Law Foundation to obtain uniform mining laws in the Western States.

TAXATION

The taxation of individuals and private businesses in all of its forms, including income, franchise, property, sales, and license taxes is becoming the most dominant single factor in the economy and well-being of the people of the United States. We urge, therefore, that Federal, State, and local governments increase their efforts to reduce taxes and government expenditures. We further urge that the system of taxation be revised to minimize the inequities which discourage and defeat incentives to produce. Those tax policies which tend to place more political power in centralized government must be resisted.

We endorse the declaration of policy on taxation as adopted by the American Mining Congress, September 24–27, 1962.

We urge that the administrators of tax laws make a special effort to evaluate the taxation of mines from a practical and realistic approach. Specifically, we strongly urge that exploration and development expenditures within a producing mine be considered from the practical and realistic viewpoint which recognizes that the search for new ore is an ordinary and necessary expense without which a mine and the new wealth created by it would cease to exist.

In the case of State and local taxation, failure to grant an adequate depletion allowance, or failure to keep taxes within reasonable limits, will discourage the development of the mining industry and result in reduced revenues. Severance taxes, being discriminatory and punitive and bad in principle, should not be enacted. Any other means of increasing revenues aimed solely at one type of industry will prove equally ill considered.

MINE FINANCING

Our domestic mineral reserves must be constantly and consistently replenished by finding, exploring, and developing deposits in new areas and in recognized

mineral districts. This process generally requires larger and larger amounts of venture and risk capital, as ore deposits are becoming increasingly more difficult to find and more expensive to develop to a commercial stage.

We urge that all branches of State and Federal Government, particularly the Securities and Exchange Commission, recognize the practical objectives and circumstances incident to mine financing so that proper financing of mine enterprises will not be unduly discouraged, burdened, or prevented.

GOLD, SILVER, AND MONETARY POLICY

For many years the mining industry has given warnings of the plight of U.S. gold only to see the predicted events come to pass with little recognition of the basic factors. Now the industry sees U.S. Treasury silver about to be dissipated despite its many warnings.

The shortage situation in both precious metals is critical and may well become catastrophic if the warnings are ignored in the future as in the past.

Not only is the United States suffering a steady drain of its gold reserves because of the adverse balance of international payments, but in addition the increased industrial use of gold has reached a point equivalent to approximately double the domestic mine output. This means a loss of about 1,500,000 ounces of gold annually to the Treasury through its sales to domestic industry.

In silver the loss in the Treasury reserves will be caused not only by increased coinage demand but also by the excess of industrial requirements over new production.

Therefore—

We oppose any decrease in the legal requirement of 25-percent gold backing of Federal Reserve paper notes plus Federal Reserve net deposit liabilities.

We strongly urge the adoption of legislation that will immediately and substantially increase the U.S. output of gold and also assure domestic producers a fair economic return.

We emphatically urge Congress to create a Joint Committee on Monetary Policy to inquire into the problems caused by the shortage of gold and silver, and then recommend measures to insure adequate supplies.

LABOR-MANAGEMENT POLICY

We favor a labor-management policy based upon intelligent, willing, and free collective bargaining between employers and their own employees; promoting the rights of labor to a fair wage and proper working conditions, and protecting the right of management to manage its own business and to conduct profitable, efficient, and economically sound operations with a minimum of interference by any governmental authority or agency.

We join with the American Mining Congress in urging the Congress of the United States, and we add, the Legislature of the State of Idaho, to the extent that it has jurisdiction of the subject, to enact effective legislation which will provide—

- (a) Application of the principles of the antitrust laws to labor unions.
- (b) Prohibition of compulsory unionism in any form.
- (c) Removal of union immunity from injunctions in Federal courts.
- (d) Elimination of Federal compulsion with respect to the procedures and subjects of collective bargaining.
- (e) Effective prohibition of mass picketing.
- (f) Effective prohibition of the use of union funds for political activity, directly or indirectly.

WATER AND AIR POLLUTION

Water and air pollution problems are largely local in nature, with their effects limited to nearby areas. We urge the Congress to establish Federal policies which give full support to the principle of local, State, and area responsibility in this field.

MINE SAFETY AND HEALTH

We maintain that the mining industry itself is best qualified and able to solve its health and safety problems. Responsibility for planning and carrying out safety programs is accepted by the industry. This responsibility cannot be abrogated to outside governmental agencies.

State mining codes or regulations, together with State or local inspections, have proven helpful in meeting area problems, and continued cooperation of these

agencies is encouraged. Duplication of these activities through proposed Federal intervention is unnecessary, and can only lead to confusion and interference in the management-employee cooperation which is essential to optimum safety.

We sincerely appreciate and commend the efforts of the U.S. Bureau of Mines in disseminating information on accident prevention, first aid and mine rescue training, and similar activities in the mine safety and health fields.

IDAHO BUREAU OF MINES AND GEOLOGY

We endorse and support the activities and policies of the Idaho Bureau of Mines and Geology, an agency devoted to the promotion of the orderly, efficient, and complete development and utilization of Idaho's mineral resources.

UNIVERSITY OF IDAHO COLLEGE OF MINES

We urge the maintenance and gradual expansion of the University of Idaho College of Mines, our professional mining school, so that it may capably carry out its mission of teaching and research in earth science, mineral engineering, and metallurgy.

POLITICAL ACTIVITY

Ours is a political system. All legislation, Federal and State, has its origin in that system.

As the country has grown, pressure upon our Congress and legislatures has increased until today more voters take the defeatist attitude that there is nothing they can do about it.

However, groups that seek to destroy free enterprise, to impose a labor monopoly, or to establish a welfare state are active and belligerent in the prosecution of their causes. Our opposition must be even stronger and more vigilant.

Each year critical political and social problems arise. Every American must interest himself in politics to the end that men selected for public office are dedicated to American principles and are constantly informed of the opinions of their constituents.

Therefore, we call upon all businessmen and every patriotic American, to take an active part in the political activities of his community, and the State and Federal Governments, to the end that the principles that have made this country great shall not be lost by default.

APPENDIX

(The following material on gold is included in the hearing record by direction of the chairman because of its bearing on problems which were the subject of the hearings.)

CHRYSOPHILES AND CHRYSOPHOBES¹ OR SHOULD THE PRICE OF GOLD BE RAISED OR LOWERED?²

(By Dr. W. J. Busschau, chairman of Gold Fields of South Africa, Ltd., director of South African Reserve Bank, former president of the Transvaal and Orange Free State Chamber of Mines)

My remarks dealing with ideas of international paper money come from someone who might be described as a chrysofile, because he believes, with a number of economists and bankers, that there should be a general upward revaluation of gold throughout the international monetary system, accompanied by a return to the convertibility of currencies into gold as well as into each other.

It is desirable at the outset to state clearly what the chrysofiles—my economist friends and I—would like to see happen.

We know from observation that the gold reserves are at present inadequate to allow a free flow of trade and that liquidity measured by various ratios has decreased; i.e., illiquidity has increased. We do not claim that by making such comparisons we can say exactly how much gold should currently be produced to keep prices steady or that we can by a simple calculation work out exactly what the upward international revaluation of gold to a uniform degree should be. We do say that an examination of relevant statistics suggests that the overall increase should be in the order of more than double, say, to a figure in the range of \$70 to \$90 per ounce. If, however, this is too large, we do not believe much harm would be done, since credit could be appropriately controlled. It is not correct that we wish to see a new wave of inflation. We would, like Mr. Hazlitt, wish to see inflation stopped and a return made to convertibility of currencies into gold. This will require an international revaluation of gold. Once gold has been revalued, we would wish the new parities and exchange rates to be maintained without change, and our examination of facts and trends suggests that if the proposed actions were taken gold stocks and production would be such that credit could be controlled so as to allow maintainable growth while avoiding both inflation and deflation. To maintain the flow of credit at exactly the optimum point will be difficult, but this does not mean that in practice one could not come fairly near to it. The achievement of all these things in practice would mean a much stronger and more prosperous world than the present one in which the actions of nations are so bound by the restrictions which have been inevitable owing to the inadequate liquidity of the international monetary system.

These ideas do not coincide with those of chrysofobes, because their interpretation of the operation of the gold standard is defective. It is this lack of theoretical understanding so apparent in their assessment of what happened after World War II that causes them to advocate peculiar remedies.

During the course of history, mankind has used many different materials as commodity money and in more recently history various metals, because of their physical characteristics, have been in use. Gold emerged as the one

¹ Chrysofile (from the Greek), lover of gold; chrysofobe (from the Greek), fearer of gold. I am indebted to Professor Röpke for these terms.

² An address given at the gold and money session of the Pacific Northwest Metals and Minerals Conference at Portland, Oreg., on Apr. 26, 1963.

in general use primarily because, while it has other desirable qualities, it has retained the essential characteristic of having a low rate of supply in relation to the accumulated stock. In the 50 years before 1914 the record of operations of the gold standard was a good one; as an international commodity standard which influenced the flow of credit throughout the gold standard world it allowed maintainable economic growth. If you exclude periods when the gold standard was suspended or prevented from working, you will find a remarkable stability of monetary values. The facts do not support the contention made by one chrysophobe that the gold standard was like "the use of an anchor that keeps the boat steady only in quiet times." In very rough times the "anchor" was taken out of use, and at others it *did* keep "the boat steady."

During previous periods of history, when the previously fixed measure between the unit of account and the commodity money reserves had been disturbed by inflation, the countries concerned either used deflation to improve the measure of liquidity or devalued their currencies. What is unique about the post-war positions after World War I and after World War II is that in each case there was, as it were, an international conspiracy to prevent upward re-adjustment of the commodity money in terms of the money of account. The attempt failed after World War I and there is abundant evidence that it is likely to fail again after World War II.

What in fact did happen in the period between 1914 and 1939 was that the currencies which had seen the largest inflations were devalued first. In that period the key currency of sterling and many associated currencies were devalued in 1931. With the devaluation of the dollar in 1934, the process was nearing completion, but further devaluations occurred and by 1939 the general revaluation was almost complete. According to figures published by the Union Corp., the position in 1936 was that, weighted by populations, the average price for gold was then some 85 percent above the average price in 1929, while official gold stocks had increased by 36 percent over the 1929 level. In terms of money value, the monetary gold stocks were 130 percent above the 1929 level. This great real change meant that the national monetary authorities were able to allow a much greater flow of credit than would previously have been possible without a complete breakdown in the system of international payments.

Chrysophobes ignore these facts, claim that there was not enough physical gold to satisfy the world's requirements and that the gold exchange standard was the answer. This interpretation is contrary to the facts, since in practice the countries which used foreign currencies in their reserves found, in many cases, that this simply resulted in losses, because, although gold does not depreciate in terms of itself, other currencies have shown a regrettable tendency to do so. The position reached before World War II was that, by a painful process of separate successive devaluations, a general devaluation had been made but this was not great enough to restore in full to the channels of world trade and banking the degree of freedom of transaction that had existed before 1914.

The chrysophobes provide no explanation of these events. They simply believe that the gold standard was responsible when, in fact, the gold standard was prevented from working effectively through the attempt to return to it at the prewar parities. Since World War II we have seen the same attempt to work a modified gold standard at parities set too low in relation to the greatly expanded money supply. The complete collapse of the international payments system has been avoided, so far, by the holding internationally of other currencies in national reserves. This so-called component of monetary reserves has increased from about \$2 billion in 1939 to over \$22 billion today.

In assessing the effect of this greater holding of foreign currencies in reserves we should be clear as to what we mean by the term "liquidity." We talk in business of a firm or an individual person as being in a liquid position if its, or his, cash position is such that maturing claims can be met without difficulty in acceptable means of payment. No American citizen can now hold gold, internally or externally, without committing a punishable offense, and in many other countries today citizens are also treated as criminals if they attempt to hold real money like gold. The acceptable means of payment are, perforce, forms of bank credit, like notes or deposits, which can be turned into notes. As among countries, the position is somewhat different, as countries other than your own, cannot be forced (like our own nationals) to hold

your national currency, and they can demand to be paid in gold, which is completely acceptable international money, or in currencies which could, without doubt, be turned into gold without any discount.

Doubt regarding the interchangeability of the U.S. dollar into gold at a fixed rate has now reasonably arisen in the light of the reserve position of the United States in terms of which the amount of liability to foreigners exceeds the sum of its gold plus short-term assets. Mr. Martin, of the Federal Reserve Board, has well said that the reliance that the world has come to place on the dollar requires that the dollar be always convertible into all major currencies, without restriction and at stable rates, based on a fixed gold parity. He has also said: "No question exists or can arise as to whether we shall pay for the debts or liabilities we have incurred in the form of foreign dollar holdings, for that we most certainly must do—down through the last bar of gold, if that be necessary." Given the current state of the reserve position of the United States, a foreign holder of dollars cannot be regarded as irrational if he fears that in the queue lining up to exchange dollars for gold he might find himself in the queue below the place at which Mr. Martin's last bar of gold has been given out. In other words, his assessment of the dollar not being as good as gold is a reasonable deduction from the facts.

The liquidity of an individual country in international terms depends on the relationship of its reserves of internationally usable money after allowance for liabilities in relation to the volume of its currency that may be offered for conversion. On this basis the United States is now less liquid than it was at the end of 1939 or at the end of 1948.

The decline in the position of the United States can be seen from figures relating to the end of 1948 and the end of 1962.

[Billions of U.S. dollars]

	Dec. 31, 1948	Dec. 31, 1962
Gold.....	24.40	15.98
Short-term assets.....	1.02	4.86
Subtotal.....	25.42	20.84
Less short-term liabilities.....	5.85	25.18
Total.....	19.57	-4.34

In the light of the latest figures, the authorities remain rightly concerned, and are still taking steps to mitigate the effects of a run on the currency.

Where a holding of dollars has been included in the monetary reserves of other countries, what is an asset to the other country is a liability to the United States and, hence, in a summation of the free world's banking system the holdings by members of the system of each other's currency cancels out. The free world's picture is that since World War II broke out the total money supply (converted into dollars) has increased by about 300 percent while the value of the total monetary gold reserves (measured in dollars) has increased by only about half. While the system as a whole has become more illiquid it has continued to limp along through international borrowing; but as events are now providing, the existence of such large outstanding claims can be very embarrassing to the countries whose currencies are so held—since the attempt to encash them into gold can lead to forced separate devaluations.

Some strange chrysofobes think one could get too much gold, say, by "mining the sea." If "mining the sea" did give very large new gold supplies, the question of a general downward revaluation could arise, but this does not appear to be a probability now. It is a shortage, not excess, of gold production that now exists.

Measured in terms of the ratio of gold to the obligations of central banks (both expressed in dollars) the liquidity of the free world is so much less than it was in earlier times that the adjective of "illiquid" is certainly applicable to the present situation. This ratio was over 80 percent before World War I. By 1928 it had declined to a little over 40 percent. Then as a result of a general revaluation of gold, which occurred let me remind you, via separate, national devaluations, it increased to just over 70 percent in 1937. Then as a result of the inflation during and after World War II it fell to under 38 percent in 1948. The devaluations of 1949 raised it to a little over 40

percent but it is now only about 30 percent. For the system as a whole the figures show that currently the international system is more illiquid than it has been at any time since the end of World War II and it is now probably only about half as liquid as it was in 1937. On this, as on many other tests, the desirable general new price of gold should be in the order of more than double the prewar price.

Against this background a general international revaluation of gold would mean a general increase in international liquidity. If the dollar price were raised to, say, \$90, and other countries adjusted the gold value of their currencies to leave their exchange rates (with a few exceptions) unchanged in relation to the dollar, the result would be that the international gold reserves would be more than doubled in terms of currency. This would allow the free world's trade to be given the freedom of movement which existed before World War II, and would allow the removal of the many restrictions which hamper it today. Such an international revaluation would restore a normal relationship between the production of gold and the production of goods, without causing either deflation or inflation, since the stronger ratios of gold to liabilities should be maintained as justifying the amount of bank credit already in circulation and not be used to start a new wave of inflation.

It would be possible after the revaluation has taken place for countries like the United States to buy back from other countries the dollars, pounds, etc., those countries are including in their reserves. This would have the effect of removing to some extent what Professor Rueff regards as a considerable defect of the gold exchange standard, namely that credit in a particular country holding another country's currency in its reserves is in effect built upon the other country's external debts.

So far the refusal of the United States to change the price of gold from \$35 per ounce has meant that it has deliberately kept the reserves of other countries too low in terms of dollars, and it has perforce, through a process of internal inflation had to provide the other nations with dollars via loans or gifts. In the result, while the system as a whole has become somewhat less liquid the position of the rest of the free world has improved and that of the United States deteriorated.

One chrysofobe rightly points out that the United States freely made dollars available to the rest of the world but, given their refusal to agree to an international revaluation of gold, they were forced into such action. Other members in the international trading game could not deal with America, since America insisted on being paid only in gold and therefore the additional dollars made available constituted, as it were, a de facto as distinct from a de jure devaluation of the dollar. In the process the United States has so increased credit that its own position has become illiquid and instead of facing the fact that international borrowing is the cause of the present troubles, the remedy proposed in the new "swopping" and similar arrangements is more international borrowing, instead of the fundamental adjustment of an international revaluation of gold.

By "international revaluation of gold," I refer to a process whereby the various countries would simultaneously decrease by the same percentage the par values (i.e. the theoretical gold contents) of their money of account. They would increase the national prices of gold by the same percentage, so as to leave the exchange rates between their currencies unchanged. This is something quite different from a unilateral devaluation of the U.S. dollar with other currencies unchanged in terms of gold, whereby the dollar would depreciate in terms of exchange rates. I would not maintain that there is a case for such a separate depreciation of the dollar at present. But in the absence of an early international revaluation, such a separate depreciation could become inevitable prior to the general revaluation.

In the present context the gold flurry in London in the fall of 1960 showed a depreciation of the dollar in terms of gold but now instead of such a fact of depreciation there exists a fear of future depreciation.

Some chrysofobes wave away these difficulties by ascribing them to the ill-will of speculators, forgetting that mankind has learned through hard experience that gold has proved more stable than have the paper currencies controlled by the politicians. As George Bernard Shaw advised long ago, if you, as a voter, have to choose between trusting "the natural stability of gold" and "the natural honesty and intelligence of members of the government" then, with due respect to these gentlemen, as long as the capitalist system lasts "vote for gold."

Professor Röpke, the architect of the postwar recovery in Germany, has given similar advice. He has said: "In the course of the centuries, no wager has been more of a certainty than that a piece of gold, inaccessible to the inflationary policies of governments, would keep its purchasing power better than a bank note."

Chrysophobes used to have the quaint idea, which both the late Lord Keynes and Sir Dennis Robertson made popular, that gold takes its value from the dollar and not vice versa. Here again the facts show that the United States has not, for some years now, been the ultimate buyer of gold and that a mere whisper that its gold value would decline has caused the dollar to depreciate on the world's exchanges. One chrysophobe deploras the idea of raising gold prices as juggling with the price of gold, while his own first remedy is just such a juggle. His plan is apparently respectable because he wishes to reduce, not increase the dollar price. His idea is that the United States will, at some time ahead, pass a law reducing the buying price of gold to \$32. Once again, the idea is not original. The process is exactly the same as that described by John Law as a "diminution of the coinage," the idea being that the future rate of conversion being lowered, the holders of money metal would rush to cash it in at the present price. In this manner Law's bank reduced the silver mark by degrees from 80 livres on March 11, 1720, to 27 livres on December 1, 1720. Charles Rist in describing the history of Law's transactions called these "an enormous and monstrous diminution—it was a conjuring trick excellently designed to discredit a bank of issue and one which his contemporaries—particularly the bankers, among whom failures increased—did not forgive him."²

In the present context such a diminution could have some effect if there existed large American private hoards of gold within America. It is, however, now many years since American citizens were stripped of such hoards. Hoarders outside the United States could not be forced in this fashion to surrender their holdings. French hoarders, in particular, have consistently shown themselves to be wiser than their critics in continuing to prefer gold to paper currencies.

Another chrysophobe remedy, often in the wind, is a world economic conference with the object of further increasing the size of international borrowing. It is a strange idea that liquidity can be cured by furthering international borrowing. Insofar as gold resources are placed in the IMF and a member reabsorbs up to that amount in loans, there is no net addition to his reserves. To the extent that the borrowing goes further, a member might receive temporary relief at the expense of reduced liquidity somewhere else in the system. It is, however, strange that drawings on the Fund have actually decreased in recent years (from a figure of gross drawings of nearly \$1 billion in 1957 to about \$600 million in 1962).

Other chrysophobes want to go further and have an international monetary unit, the IMF becoming a supercentral bank. In this context ideas like those of Professor Triffin, are really a dish of warmed-up Keynesian Bancor. The answer to these schemes was given clearly about 10 years ago by Dr. Schacht, who himself was something of an expert in doing without gold in his book: "Gold for Europe." He said:

"There is a final consideration which decides absolutely in favor of a gold currency. Gold has a monetary value which is equally appreciated and accepted by all nations throughout the world. It is quite impossible to create money in one state which is appreciated and accepted equally by all nations engaged in international trade. Nor is there any chance of a legally created world currency by international agreement. So long as the absolute sovereignty of individual states exists, the creation of an artificial world currency is quite impossible. But gold is already a currency universally accepted throughout the world. However the money of any particular state may be created, it is always measured in terms of gold."

All these schemes simply envisage further international borrowing with the basic idea that the United States can reborrow some of what she has overlent. Given the record of the IMF and its "overlord," the U.S. Treasury, the authorities of other countries will naturally be very reluctant by their membership of the proposed schemes to diminish their own power of controlling credit. Countries which at present have their monetary affairs in order would indeed be acting irresponsibly in entering into such schemes.

² Quoted from "History of Monetary and Credit Theory" by Charles Rist (George Allen & Unwin, Ltd., London, 1940).

Some chrysofobes are quite clear as to their desires, and believe that it is only the present U.S. policy of buying gold at the fixed price of \$35 per ounce fine that stands in the way of its demonetization. An example is the recent plan drawn up by Mr. Gerard Tallack.

The Tallack plan has the great virtue of simplicity—briefly, his plan for gold is “to get rid of it.” He declares that were it not for the readiness of the U.S. Treasury to buy all the gold offered to it at \$35 a fine ounce, gold would have virtually no value at all. It is indeed surprising that such a line of thought should exist at a time when the United States has not been a net buyer of gold for years and is still steadily losing gold to an extent that causes some Americans to inquire if indeed it is wise to continue to sell it so cheaply. Since 1950 the U.S. gold reserve has fallen by more than the amount of newly produced gold and up to the present other countries have shown no disinclination to buy gold in the sense of taking it in exchange for its national currency.

It is true that in the 1930's when the dollar was maintained at a fixed gold parity, and other currencies had flexible exchange rates, the price of gold in London and Paris was on a day-to-day basis fixed in relation to the dollar price. Today these currencies maintain (under the IMF system) fixed exchange rates and fixed parities. Consequently, while newly produced gold is sold outside the United States it is not at present correct, as it may have been in the thirties, to describe the United States as the ultimate buyer. It would also not be sensible to believe that if some chrysofobes had their way and divorced the dollar from gold, that other countries would wish similarly to demonetize the yellow metal. Unfortunately responsible chrysofobes cannot suggest the Tallack plan should be adopted as a way of hastening a depreciation of the dollar and, hence, of the international revaluation. They cannot advocate this, because it would be a disorderly way of securing their object.

Claims are also made to the effect that the dollar is the “principal reserve currency of the world” and “the reserve currency on which all other currencies depend.” In relation to the U.S. gold price, 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 arrangements of the U.S. Treasury'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.

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.

Let us for a moment consider 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, I would repeat that 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 encashing them.

Gold held in a monetary reserve represents an asset which the country holding it can immediately, or at any time in the future, dispose of for the purpose of buying commodities from any country or making an investment in another country or for making payment of debts already incurred in foreign countries. The foreign currency held in a reserve can depreciate in terms of gold and, hence in the absence of a uniform international revaluation of gold also in terms of the holder's currency. Gold is an unconditional generalized instrument of final payment, the other is only a claim to payment limited by the circumstances of the debtor.

I am in this context reminded of the story about Mayer Rothschild. It is told that there was always a million pounds in golden sovereigns in his London strongroom which hoard, according to the founder of the firm, Nathan Rothschild, was not to be touched except in the direst emergency. Mayer's son, Lionel, at a time when Bank of England notes were certainly regarded "as good as gold," asked the old gentleman: "Wouldn't a draft on the Bank of England be just as good, besides bringing £30,000 a year in interest?" "No," said Mayer, "there are moments when you need gold, if it were for nothing but to give you the sense of security."

It is appropriate that we should now pay attention to the ideas of some observers who are not obviously chrysophiles or chrysophobes. This neutral group includes many responsible people who dislike inflation but who do not wish to accept without question that a general restoration of convertibility of currencies into gold implies a higher price for gold.

In this context the neutral group fear that a general revaluation may represent a dangerous precedent for the future. In this connection may I give you some views given in a private letter in 1949 by a famous European statesman and economist who is no longer alive. Commenting on the fear that a general revaluation may be followed by others, he said: "Of course we cannot find an unailing remedy against such danger. There is no unailing remedy for economic and social diseases. However, if it were possible to go back to the ancient methods of gold cover for the note issue, and if above all it were possible to persuade public opinion of the advantage of going back to the ancient right for everybody to convert notes into a determined amount of gold, why should it be impossible to restore the psychological situation, which involved the fact that governments and parliaments felt obliged to maintain the convertibility of notes into gold?"

In commenting on a text of mine, he went on to say: "The author of the article properly remembers that the price of gold remained unchanged in terms of pounds from 1717 up to 1914. As a matter of fact, during the period of the so-called restriction, for about 20 years, at the beginning of the 19th century, the pound was not convertible into gold, but for the whole remainder of those two centuries the fact that the banks were obliged to convert paper currency into gold helped very effectively in checking inflation."

He then gave his conclusions: "The choice seems to be between two systems: (1) the return to the convertibility of notes into gold; (2) the regulation of the note issue through the International Monetary Fund.

"Both systems are universal; both aim at preventing inflation; both run the risk that, in case of emergencies, such as wars, revolutions, or general crisis, the system be made into pieces by the responsible authorities.

"The first one, however, is an automatic system, inasmuch as it works spontaneously in the different countries whilst the second one is put into action through international conferences, political conversations, etc. The first one works case by case and once it is violated the country concerned realizes that a mistake was made and tries to find a remedy. The second system involves a very considerable movement of ambassadors, ministers, delegations of experts, and there is always the possibility of stating that if there is a change in the relationship between gold and a certain currency, the responsibility for it cannot be set upon those who govern such a currency, and is instead due to an international situation for which everybody and nobody is responsible."

These views are, I believe, very interesting, and experience over the period of 14 years since they were written has, I think, proved their wisdom. A general return to gold convertibility, to a gold standard, would reestablish monetary order, in Professor Heilperin's sense, since national and international responsibility of monetary authorities would become necessary. Clearly in the

effort by Dr. Per Jacobsson and others, to establish an international control of credit, we have ended up with a situation in which everybody and nobody is responsible. The gold standard is a system of order and discipline in which countries must act responsibly and the general revaluation of gold is an essential step in restoring that order on the basis that stabilization of currencies, and not further inflation, is the aim.

It is a matter of regret that the chrysophiles have found it difficult to obtain a full discussion of their views in the United States. In the first place the proposition of a unilateral devaluation of the dollar is confused with an international revaluation of gold as part of a restoration of monetary order. In the second place the proposition of a general revaluation of gold is represented, I believe unfairly, as a kind of unpatriotic assault on American integrity. Your authorities make statements like these:

A central banker says: "The dollar is a symbol of this country's strength. Thus, a decline in the value of the dollar, to say nothing of a formal devaluation, would suggest to them (i.e., people abroad) a decline in the faith and credit of the United States, and in their minds signal a decline not only in American economic strength but also in moral force."

He goes on to say he is convinced "that it (i.e., a devaluation) would immediately spell the end of the dollar as an international currency and the beginning of a retreat from the present world role of the United States that would produce far-reaching political as well as economic effects."

An enemy of yours might say that some of these statements have about them the spent scent of stale hypocrisy. They could cite the abrogation of the gold clause in the thirties, and it is a matter of record that following the international revaluation of gold in the thirties there was a revival of world trade and a restoration of confidence. In today's context an international upward revaluation of gold accompanied by a return to gold convertibility could again revive the economies of the free world. There are no valid reasons to believe that in such circumstances there would be the havoc threatened by your authorities. Here, I would like to say how much I admire the courage of Americans like Mr. Philip Cortney and Dr. Donald McLaughlin who have consistently, on the basis of objective study, put forward an international stabilization of currencies as the desirable objective, no matter how unresponsive some of their audiences may have been. They have been wise enough to see that the big problem is not that of temporary relief of the pressure on your balance of payments but that of establishing a monetary order in which the economies of the free world can flourish and grow.

Many chrysophobes like ending up with a reference to Russia and South Africa, the implication apparently being that South Africa and Russia, both regarded as unworthy countries, would benefit most from a revaluation of gold. This is not accurate because the immediate benefit would accrue to those countries which possess the largest stocks of gold. And even with its present reduced stock of gold the United States still has a stock which is equivalent to almost 18 years' production by South Africa at its current, and record, rate of production.

The prospects of gold production are known to you from the fine paper presented to you 3 years ago by Dr. McLaughlin. In South Africa production from mines opened up since World War II now accounts for the major part of the total production, which for 1962 at 25½ million ounces, constituted a new record. As some of the new mines have not yet reached maturity, the total South African production, despite the loss from mines which will close, is likely to reach a peak within a few years and the curve will then go downward. In the absence of new discoveries, the future production would only be a fraction of what it is at present. Although prospecting continues, the present prospect appears to be that the curve of production will, from a summit to be reached in a few years' time, go down quite steeply as some large present producers and their working lives. The prospects for producers in other parts of the free world appear to be that taken together, their output is more likely to continue on a downward trend than to turn upward.

In recent years the hoarding demand for gold has been so great that the annual increment to monetary gold stocks has been very small, and this fact has accounted for the large increase in international lending. On the basis of the present price of gold the disproportion between the monetary gold stocks (at present currency values) and the free world's money supply is likely to

become greater with the likelihood of greater imbalance in the accounts between nations. A higher price for gold would, apart from stimulating production, induce the release of gold from hoards. If such action were taken in time, the increment of newly mined gold should be sufficient to allow credit expansion at a rate consistent with steady, maintainable economic growth.

It has been stated from time to time that the Soviet Union subsidizes its gold producers. If Russian production is already being subsidized, then they are already enjoying the benefits of a higher gold price, and so their production is larger in relation to the competitive political bloc which so far has refused to raise the gold price, and in many cases to subsidize gold production. On this subject you may recall, too, Sir Roy Harrod's remark: "It is very obscure why an operation, which gives the U.S.S.R. a certain present but simultaneously gives the free world a much larger one, is said to benefit the U.S.S.R."

Mr. Khrushchev apparently has a habit of making provocative remarks and drawing interesting responses. This does not, however, mean that his words must always be taken as exactly defining the basis of Soviet policy. Instead, therefore, of chrysophobes like Professor Triffin repeating Khrushchev's and Lenin's references to "gold in lavatories" they might consult the official Soviet textbook on economics which does not, as some believe, reveal a cynical attitude. According to Professor Triffin, Mr. Khrushchev has said: "Gold we have, but we save it. Why? I don't really know. Lenin said the day would come when gold would serve to coat the walls and floors of public toilets. When the Communist society is built, we must certainly accomplish Lenin's wish."

The official Soviet textbook says: "In Socialist society gold performs the functions of world currency. The gold reserve is mainly a state reserve fund of world currency. In foreign trade, gold as an instrument for buying and selling is a means of international accounting by the state." * * *

"The stability of the Soviet currency is secured not merely by the gold fund, but primarily by the huge quantity of commodities in state hands which are released into the trade network at stable planned prices. In no capitalist country does money have such a reliable backing as in the Soviet Union." * * *

"Money has the function of a measure of value, a means of circulation, a means of payment, and a means of socialist accumulation and saving, a world currency. Soviet money is backed not only by the gold reserve but primarily by the mass of commodities which is concentrated in state hands and sold at state-planned prices."⁴

I should add that an enemy with some sensible, if old-fashioned, ideas is no doubt more dangerous than one with foolish newfangled ones.

As far as I am aware none of the advocates in the international liquidity school would have any truck whatsoever with communism, but I do believe most of us would recognize that if America continues tinkering with currency arrangements the result might well be to give the Soviet bloc a wonderful opportunity of taking over the role of the world's chief international banker with a ruble properly convertible into gold. At present the Russians do not appear to have enough gold to undertake such a task, but if America engages in hazardous experiments there might be many of the uncommitted countries who would be willing to transfer dollar holdings into ruble holdings and so secure, through the resultant movement of gold, a sufficient Soviet reserve.

It is now becoming an urgent task for the free world to restore monetary stability which means that inflation must be stopped, convertibility restored, and the process of inflation should not be restarted with increased international borrowing.

The rest of the free world looks to the United States as a guardian of the security and prosperity of the free world. They applaud when, as in the case of Cuba, the United States acts with purposive direction. It is, therefore, a great pity that so far the proposition of an international revaluation of gold has continued to be represented as an unpatriotic assault on the United States.

I can but continue to hope that the stabilization of currencies in terms of gold with an international revaluation of gold will now be examined on its merits as a desirable measure of international cooperation designed to revive the economies of the free world. It has become urgent to end the state of things in which "everybody and nobody is responsible."

⁴ Quoted from "Political Economy—A Textbook Issued by the Institute of the Academy of Sciences of the U.S.S.R." (Lawrence & Wishart, London, 1957).

REMARKS BY LELAND HOWARD, DIRECTOR, OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS, BEFORE THE 66TH NATIONAL WESTERN MINING CONFERENCE AND EXHIBITION, THE DENVER HILTON HOTEL, DENVER, COLO., THURSDAY, FEBRUARY 7, 1963

TREASURY'S GOLD POLICY

I welcome this opportunity to talk to you because, for one thing, it gives me an opportunity to see so many friends I have known for so long a time. I first visited Denver in 1934, shortly after joining the Bureau of the Mint, and it has been my good fortune to come here several times a year ever since.

I understand that your invitation was extended to me so that the Treasury would have an opportunity to restate its position on gold. In response, I want to say that the Treasury's policy on gold has remained the same since 1934, when Congress passed the Gold Reserve Act. Although the technique of carrying out the policy under different administrations may vary, the basic policy has been the same under both Democrats and Republicans. Our basic policy has been—and remains—one of centralizing the gold reserves of the country in the hands of the Government under the jurisdiction of the Treasury and maintaining a fixed price of \$35 an ounce for gold.

Having worked in the gold and silver field during my entire Government career, I believe that I well understand your problems. I know that you, as producers, are interested in bringing out of the ground a ton of material for which you can obtain a price, on the basis of the metal or metals therein, that will offset your cost of mining the ton of material. I know that because mining is an extractive industry, many things enter into the picture in addition to the price you obtain for metals. One problem is that the metal content of the ore body is not inexhaustible, and it eventually "peters out."

The history of gold mining in the United States demonstrates that this problem has played an important part in the gold mining industry. We know that gold mining was once a flourishing industry in Virginia, the Carolinas, and Georgia. And any one of us could relate, as if it were yesterday, the story of the many once great mining areas here in the West. You may recall that we have had mints for the coinage of gold in Charlotte, N.C., and Dahlonega, Ga. Also, a mint for coining gold and silver at Carson City, Nev., and assay offices at Seattle, Helena, Salt Lake City, Deadwood, and Boise. These went out of existence years ago because of the drying up of ore bodies, the cost of production, and the price of gold. I do not believe anyone present would contend that these mining areas should have been kept open through subsidy or a higher price for gold—that would have interfered with the monetary role of gold. Nor do I believe anyone would contend that today there should be a subsidy large enough to reopen these fields. All of us can agree, therefore, that our policy is clear and right when we apply it to these events of the far-distant past. But our perspective changes when it affects us here and now.

There is another problem, as well, that arises from the very nature of mining. Many mines involve more than one metal. And the decrease in the price of one metal increases the importance of the revenue from another. No doubt, some of the arguments today for a greater return from gold in byproduct mining result from a decrease in the price of another metal. But I do not believe we should blame gold for an unprofitable situation when another metal is at fault.

These, then, are two problems caused, not by external circumstances, but by the character of mining itself. This, of course, does not change the larger picture, in which gold production in the United States has been on the wane while free world gold production has been waxing strong. In the United States, production reached its peak in 1940, when it amounted to \$170 million. In 1961, U.S. production amounted to only \$55 million. Free world gold production, on the other hand, has increased from \$738 million after World War II to \$1,220 million in 1961. During the 10-year period, 1951-61, free world gold production increased 45 percent. Preliminary figures for 1962 indicate a further increase in free world production and it is predicted that there will continue to be an increase for many years to come. As it now stands, based on 1961 figures, U.S. gold production is only 4½ percent of free world production.

Many have predicted that a subsidy would cause U.S. gold production to increase enough within a few years to offset our decrease in gold stocks. In the past 5 years this decrease has amounted to nearly \$7 billion. That is a lot of gold. As it is difficult to predict production at some higher price, let's look and see what happened in the United States in 1934, when the price of gold was in-

creased 69 percent. At a time when labor and supplies were at their cheapest, when ore dumps and tailing piles that had been in existence for years were reworked, when the dredge really blossomed—many gold-bearing streams in the West that could be worked with a dredge were worked—gold production slightly more than doubled. Recently, in commenting on one of the proposed subsidy bills, the Department of the Interior indicated that a 100-percent subsidy would about double today's gold production. Yet if such subsidy were given and we doubled our gold production it would take this increase well over 100 years to replace the decrease in the gold stocks in the past 5 years.

A subsidy, in short, cannot solve the problem. And it would present a very real danger to our dollar.

Starting after World War I, the dollar evolved as a key currency of the world, and since World War II, the world has accepted the dollar as a supplement to the gold supply in furnishing liquidity to the trade between the countries of the world. The dollar has become the kingpin, so to speak, of international financial stability. This has been possible for a number of reasons. But a fundamental aspect has been our policy of buying and selling gold at a fixed price to foreign governments, central banks and, under certain conditions to international institutions, for the settlement of international balances and for other legitimate monetary purposes. We do not, I might note here, sell to foreign individuals. Also, we sell gold for legitimate industrial, professional, and artistic use in the United States and, of course, we buy gold here. Other governments hold the dollar because of our policy of buying and selling gold at a fixed price. The dollar is the only currency that maintains this link between money and gold, and the monetary system of the entire free world is hinged to this interconvertibility which we maintain between gold and dollars at a fixed price. This much is clear. But how, one might still ask, can a subsidy to us, a domestic problem, have anything to do with the dollar as an international currency? Gold, one might add, is subsidized in other countries and agriculture and other industries are subsidized in this country.

The answer is that the monetary units of other countries do not have the status of the dollar, and other countries do not have the responsibility for maintaining a fixed relationship between their currencies and gold. Gold in the United States is a monetary metal and cannot be treated as a commodity, as are products of other industries, or as gold is treated in some countries. The usual reasons, therefore, 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. The gold mining industry cannot be viewed simply as a case of a marginal or depressed industry seeking relief from the normal compelling pressures of economic change. An effort to assist a relatively few people to keep or obtain jobs, no matter how desirable, would instead of helping those in the gold industry, run the grave risk of disrupting the monetary system on which not only their own livelihood but the livelihood of all of us depends.

There must not be a second price for gold in the United States, no matter how indirect, alongside the official price. Any price other than the official price could be construed by our creditors—those countries that hold dollar balances—to mean that we had in some way made a judgment that the official price of gold is too low; that in some way, directly or indirectly, we were on the way to revising our official price. This could lead to speculation against our currency. Doubt must not exist. We are the country that maintains the monetary role of gold and for that reason we cannot treat gold as we would another commodity or the gold mining industry as we might treat some other industry.

The position of the Treasury, therefore, which is, of course, that of the President, is to maintain the fixed price of \$35 an ounce for gold and to oppose any proposals that would lead anyone to believe that we did not think that the \$35 price is the proper price for gold.

It is the balance in our international payments—that is, the balance between the total payments made by U.S. residents to foreigners and the receipts of U.S. residents from foreigners—which is the root cause of our gold outflow. A comprehensive program to eliminate this balance-of-payments deficit has been developed and much progress has been made.

I might add, without going into too much detail, that several easy but deceptive solutions to the balance-of-payments problem have been put forth. The first of these is devaluation. Devaluation would not only fail to help our balance of payments, but it would destroy the status of the dollar in international trade. U.S. devaluation would undoubtedly be followed by devaluation in all other

countries, thus leaving the dollar in the same relative position as before but with less prestige. Because of devaluation, the dollar would not be used as a companion to gold in furnishing world liquidity. Once the value of the dollar is changed, the world is left without a major currency generally acceptable as a supplement to gold. Yet providing such a supplement is vitally important, as you can judge by the fact that foreign monetary authorities now hold about \$12 billion in short-term dollar assets, private foreigners about \$8 billion, and international institutions more than \$5 billion.

Another plan is to create a superworld central bank with a new monetary unit of account representing the deposit balances held at the superbank. This would require all countries of the world to give up their present reserves and accept the new monetary unit of account of the supercentral bank. No matter how constituted, the credit standing of the superworld bank would, in the final analysis, depend upon the credit structure of the countries involved and the same balance-of-payments problem would confront each country under this system as under the present one.

Another suggested solution is one of free exchange rates. During the postwar period we have striven through the International Monetary Fund and through international monetary cooperation to develop a payments system based on stable exchange rates firmly linked to gold. Free exchange rates would introduce uncertainties and disruptions in exchange transactions and would not be conducive to trade between countries, which has grown so greatly since World War II under a system of basically fixed exchange rates among the major industrial countries.

The dollar is sound both at home and abroad. It is the currency on which other countries rely for a large amount, and in some cases, for all of their international payments. We are the banker for a large part of the world's payments needs. Our payments problem is not to be considered lightly nor is it to be viewed as something that cannot be corrected over a period of time. The same is true of our gold loss, since it is so closely tied to our payments problem. Nor should we back away from our role as world banker. Our political, economic, and military position in the world makes our balance-of-payments problem a difficult one, because in making military expenditures and in giving aid, some dollars will continue to go abroad even though the amount that is not spent directly on U.S. goods and services is being constantly reduced. Our economic health is observed from abroad, and measures taken to correct our balance of payments must be consistent with the growth of our domestic economy. In formulating overall policies we must, on the other hand, keep strongly in mind our balance-of-payments problem.

One of the most important things to point out is the cooperation in the monetary field that is taking place between the United States and the other countries of the free world. The cooperation in this field today, in which mutual problems are being discussed constantly, is a bright spot in today's problem-plagued world.

All of these, then, are the reasons for the Treasury's position on gold. We must, as I have explained, think of gold as a monetary metal—not as a commodity. We must think of the dollar not only as involved in our domestic economy, but also as a reserve currency held by others as a supplement to the world's gold supply. The dollar has attained this position internationally for a number of reasons. But one essential aspect of maintaining confidence in the dollar and maintaining a strong and stable international monetary system is to continue to stand ready to buy and sell gold at the fixed price of \$35 an ounce and to avoid any actions that would encourage speculation for a higher price of gold.

The Treasury is deeply interested in the health of the gold mining industry, just as we are interested in the well-being of our other major industries. However, we must think of gold from the standpoint of the national interest as a whole, and not only in its relation to one segment of the economy. As I indicated earlier, we cannot take side excursions in gold that others will interpret as a sign that we do not think the present price for gold is correct. We cannot run the risk of disrupting the monetary system which is so vital to the U.S. economy and the economy of the free world. The Treasury intends to adhere firmly to our policy of continuing to buy and to sell gold at \$35 an ounce, and we firmly intend to oppose all attempts, whether direct or indirect, to change the \$35 price for gold. This has been our policy since 1934. It must continue to be our policy.

AMERICAN MINING CONGRESS—A DECLARATION OF POLICY

ADOPTED AT LOS ANGELES, CALIF., SEPTEMBER 15-18, 1963

From the dawn of recorded history the progress of man has been associated with his initiative and intelligence in the use of his mineral resources. Tribal societies, nations, and empires have grown great or passed into oblivion caused in large part by their success or failure in the development of mineral deposits and the production of ever better metals. Under the free enterprise system for a hundred years the mining industry of the United States has effectively and efficiently supplied the minerals and metals without which this Nation might have long since receded to a second-rate power.

A strong mining industry essential to maintain the future security and economic stability of our country will continue to exist only if it can do so at a profit. We believe the competitive system under which America rose to greatness is threatened by the perils of socialistic experiments, excessive taxation, a managed currency, continued attempts at a managed economy, continued growth of union monopoly power, and unwarranted Federal intervention in the field of employer-employee relations.

We urge our citizens to insist upon more restraints being placed upon government and also awake to the urgency of a reaffirmation of the sound constitutional principles upon which our Republic was founded.

GOLD

Revaluation of gold in terms of the major currencies pursuant to international agreement would be merely a recognition of the inflation that has already taken place since the price of gold in dollars was fixed in 1934. To provide adequate international liquidity, and to reestablish the gold standard on a basis that could be maintained, a substantially higher price for gold is called for.

The gold mining industry under these conditions would, of course, benefit. Plants would be expanded, the life of existing mines would be prolonged, and new discoveries could be expected from the stimulation that prospecting would receive. With continuation of present policies, however, domestic gold mining will soon be extinguished unless special aid of some sort is provided.

We oppose the removal or suspension of the legal requirement of gold backing of 25 percent of Federal Reserve notes and deposits. An approach toward this limit as our gold reserve declines should force corrective action while it could still be accomplished with some measure of order and control.

We recommend:

1. Removal of restrictions on ownership, purchase, or sale of gold by U.S. citizens.
2. Termination of sale of gold by the Treasury for industrial uses, thus ending the subsidy the users of gold now enjoy at the expense of the miners.
3. Provision, as an interim measure, of some aid through a premium price, subsidy, or tax relief, to preserve the few existing gold mines until the industry is revived through realistic revaluation of gold.

The first part of the book is devoted to a general history of the United States from its discovery by Columbus in 1492 to the present time. It covers the early years of settlement, the struggle for independence, the formation of the Constitution, and the development of the nation as a great power. The second part of the book is devoted to a detailed history of the United States from 1789 to the present time. It covers the early years of the Republic, the struggle for the abolition of slavery, the Civil War, and the Reconstruction period. The third part of the book is devoted to a detailed history of the United States from 1865 to the present time. It covers the Reconstruction period, the Gilded Age, the Progressive Era, and the modern era.

The book is written in a clear and concise style, and is suitable for use in schools and colleges. It is a valuable source of information for anyone interested in the history of the United States. The book is divided into three parts, each of which covers a different period of American history. The first part covers the early years of settlement and the struggle for independence. The second part covers the early years of the Republic and the struggle for the abolition of slavery. The third part covers the Reconstruction period and the modern era.

The book is a comprehensive and authoritative history of the United States. It is written by a leading historian and is suitable for use in schools and colleges. The book is divided into three parts, each of which covers a different period of American history. The first part covers the early years of settlement and the struggle for independence. The second part covers the early years of the Republic and the struggle for the abolition of slavery. The third part covers the Reconstruction period and the modern era.