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# GOLD REVITALIZATION

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## HEARING

BEFORE THE

SUBCOMMITTEE ON

MINERALS, MATERIALS, AND FUELS

OF THE

COMMITTEE ON

INTERIOR AND INSULAR AFFAIRS

UNITED STATES SENATE

EIGHTY-EIGHTH CONGRESS

FIRST SESSION

ON

**S. 2125**

A BILL TO REVITALIZE THE AMERICAN GOLD MINING INDUSTRY

OCTOBER 23, 1963

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

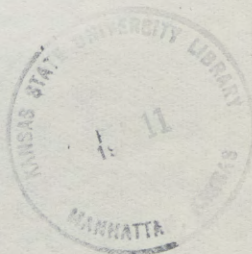


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## GOLD REVITALIZATION

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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 applecart; 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.

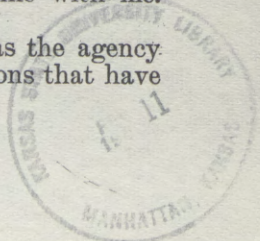
The Treasury Department, in effect, said, although it did not know much about the subject—which invoked the remark from Senator Clark, "Why did they report on it if they did not know much about it?"—that they thought it was unthinkable to deviate from the prescribed and established policy of merely having 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 a statement from a cosponsor of the bill S. 2125. Senator Bible has long been a friend of the mining industry and we are glad to hear from him.

(The statement referred to follows:)

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

Mr. Chairman, as a cosponsor of S. 2125, I firmly believe this bill offers an opportunity for the Congress and the administration to take action in an area that sorely needs assistance and one which could go a long way in alleviating our gold outflow. I have never subscribed to the theory that our Nation has a shortage of gold insofar as gold ore is concerned. All we need to do is to realize that no business, where it is the gold-mining industry or any other industry, can operate at a loss.

It has been 29 long years—since depression days—that the price of gold has remained at the fixed price of \$35 per ounce. Surely, all will agree that costs are up—labor, equipment, transportation, and all the interwoven costs that go into production. If our Treasury Department would concern itself more with permitting a profitable price to be paid the gold producer, I am certain we would find prospectors and members of the mining industry making every effort to find new sources of gold in our Nation as well as opening up and reworking presently known low-grade deposits of gold.

The Congress and this administration fully recognize the precarious position of our balance of payments. We recognize the tremendous gold outflow and the need to expand our export markets in order to stop the outflow of gold. We recognize that if foreign nations called for gold in exchange for their dollar holdings, that we could not meet the demand. We have some theorists, and among them Members of Congress, who suggest we no longer back our paper money with this precious metal.

Why do we permit such a condition to exist? Are we really afraid we will cause inflation if the price of gold is raised? Will we actually cause other nations of the world to devalue their currency and will we devalue our dollar?

I submit our dollar has been devalued. If it has not, then why have our foreign friends demanded more and more of our gold in exchange for their dollar holdings?

Would it not be feasible to set a realistic price on gold and is it not a possibility that our foreign friends would release some of their gold holdings to purchase needed commodities in this Nation? Actually, if the price of gold were higher, their holdings of gold would purchase more American products and I believe they would, in turn, take advantage of this opportunity to purchase their needs. Such stepped-up purchases would expand our exports, one of the chief aims of this administration. It would cause more unemployed workers to be added to industry payrolls.

We all know that Canada in recent years devalued its dollar. We know that Canada demanded payment of gold for a part of its sale of wheat to Russia and Russia agreed to supply the gold. Russia needed wheat more than gold. We have commodities that many nations of the world desire to purchase.

Why can't this Nation call the shots? Are we not the largest producer of manufactured products? Do we not have the industrial capacity to produce much more than we are now producing?

Well, ever since I have been a Member of the U.S. Senate I have introduced or cosponsored legislation which, in my opinion, would help this Nation's economy by simply putting gold on an equal basis with other commodities, and pay a realistic price for this valuable article.

Of course, we have those who feel we need not back our currency with gold or any other intrinsic metal; but history does not show that other nations have or will accept this theory. It does not show that they will accept this theory in 1963. If they did, they would not be exchanging dollars for our valuable gold supplies. It does show that they do not have as much faith in our dollar as some would have us believe.

We are subsidizing practically every major industry in this Nation, either directly or indirectly; and I am not one who believes this is necessarily good business although I recognize that every industry, whether it is the farmer, the shipbuilders, the airlines, the railroads, or the trucklines, at some time or another needs Federal assistance. I believe there exists a Federal obligation



to keep our industry productive and competitive. Yet the one major problem of gold outflow is permitted to exist, and I say for lack of a realistic program to meet the problem head on.

The bill before us would not change the price of gold over \$35 per ounce. The bill would only direct the Secretary of the Interior to administer a program to compensate the gold producer for the difference between base average costs on January 1, 1940, and the present-day equivalent price of costs for the individual operator producing gold today.

Is there too much wrong with this simple solution? Of course, it will cost the Federal Treasury and the taxpayers an unknown sum to make up this differential. The gold producer will accept and welcome our dollar and he will expend it in this Nation putting more men to work and these funds will, in turn, be channeled into the normal avenues of trade.

We are the only nation in the world that will not permit its citizenry to hold gold. If we permitted such, and this bill does not call for such action, I doubt that we would have to concern ourselves with which citizens of this Nation and others are recorded in Swiss banks with gold holdings—records which are not available to our Government. Are we, by our monetary policies, actually encouraging our own citizens who have lost faith in our dollar to become violators, in a sense, of our own legislative entanglements and failures to do something about this problem?

The Congress is now considering a cotton subsidy which will assist the textile manufacturers and the cotton growers, and it will cost our taxpayers approximately one-half billion dollars. This is a field that employs more people than the gold industry ever will employ; but this proposed legislation does not offer more than a subsidy to meet competition from foreign imports and equalize the difference between what we sell our raw cotton for to foreign nations and what we receive back in turn in manufactured products less costly than our textile industry can produce.

For the life of me, I see nothing wrong in giving the gold producer an opportunity, just a ray of hope, and a chance to show this Nation and some who feel we have no gold reserves, that this industry can be revitalized—that we can produce gold within our own limits and that we can start putting gold back in our Treasury. If we do not meet this problem, and I say here that there are more ways than one of meeting it, I predict our dollar will continue to be held in disregard. We have been outsmarted so many years by the fiscal managers of foreign currencies that we will have to accept the inevitable and assume that they will continue to exchange the dollars they earn, and the ones we pass away so freely in foreign aid and military aid, for our precious gold, a commodity that all men know will be exchangeable in any country in the world at its face value without any question as to its true value.

I urge this committee to give serious consideration to the bill before us. Let us take this one step to prove that our Nation's gold reserves are not depleted. Let us remind those who would like to term our Nation a have-not nation with respect to minerals that the same errors of judgment were made with respect to tungsten and uranium, and that our domestic mine producers proved them incorrect—so incorrect that the huge supplies which we mined when we so desperately needed them during the war years are now in oversupply.

Senator GRUENING. I know that Senator Bible's well-thought-out views and comments will be most helpful. As a native and lifelong resident of Nevada, he has practical, firsthand knowledge of facts and conditions in the gold mining industry, both in Nevada and elsewhere in the country.

In the years he has served in the Senate as the able successor to the late Senator Pat McCarran, Senator Bible has labored most assiduously to assist in every way possible domestic mining and the minerals industry as a whole. As a member of the Subcommittee on Minerals, Materials, and Fuels, his knowledge and his devotion to the interests of mining and the West have been invaluable to his State and to the Nation.

Next, I am happy to present to the subcommittee a statement from another cosponsor of the bill who also is a great and good friend of the American mining industry.



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.....                                                                                        |         | 275, 515. 80   | 8. 47               |                       |
| (Golden Cycle Mill paid \$32.76 per ounce for gold when under 5.00 ounces per ton.)                                      |         |                |                     |                       |
| Mining cost including depreciation, freight, and mill treatment charges, amount paid lessees and overhead charges.....   |         |                | Per ton<br>\$17. 51 | Per ounce<br>\$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.....                                                                                        |         | 563, 897. 48   | 17. 21              |                       |
| (Carlton Mill paid \$35 per ounce for gold.)                                                                             |         |                |                     |                       |
| Mining cost, including depreciation, trucking, and mill treatment charges, amount paid lessees and overhead charges..... |         |                | Per ton<br>\$27. 18 | Per ounce<br>\$38. 23 |

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.....                                                                                 |         | 736,856.34     | 5.74               |                      |
| (Golden Cycle Mill paid \$32.76 per ounce for gold when under 5.00 ounces per ton.)                               |         |                |                    |                      |
| Mining cost, including depreciation, freight, and mill treatment charges, overhead, and amount paid lessees.....  |         |                | Per ton<br>\$10.33 | Per ounce<br>\$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.....                                                                                 |         | 185,717.73     | 6.45               |                      |
| (Carlton Mill paid \$35 per ounce for gold.)                                                                      |         |                |                    |                      |
| Mining cost, including depreciation, trucking, and mill treatment charges, overhead, and amount paid lessees..... |         |                | Per ton<br>\$15.15 | Per ounce<br>\$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

$$\frac{.33}{.33} = \$2.60$$

(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.

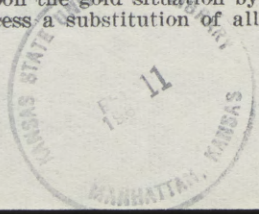
#### *The solution to the dilemma*

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.

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 available for the increased demands of cash for the purchase of inventory, operation equipment, 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.

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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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.

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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, 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 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 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 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 81½ 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.

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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.)

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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,<sup>1</sup> 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.<sup>2</sup> 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."<sup>3</sup>

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;

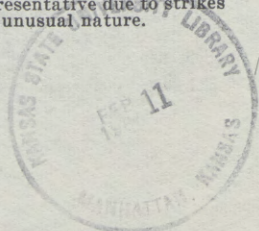
"(g) Costs of transportation of mine products, smelter freight, treatment, and deductions; and

"(h) Costs of such other expenses as are usual, customary, and normal according to accepted, sound, modern mining practices."

<sup>1</sup> 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.

<sup>2</sup> The preceding clause containing 8 words is necessary.

<sup>3</sup> 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*<sup>4</sup> 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."<sup>5</sup>

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.

<sup>4</sup> 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.

<sup>5</sup> 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.

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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.*

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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.*

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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.*

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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.*

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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..*

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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.

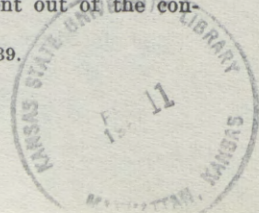
#### COAL BOUNTIES

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 regulations<sup>1</sup> 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-

<sup>1</sup> 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 bemoaning 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.

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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. LACHEM, 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.

