TREASURY SALES OF U.S. GOLD AND THE GOLD MEDALLION ACT OF 1978

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 2843

TO PROVIDE FOR THE ISSUANCE OF GOLD MEDALLIONS, AND FOR OTHER PURPOSES

AUGUST 25, 1978

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FRIDAY, AUGUST 25, 1978

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10 a.m., in room 5302, Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Stevenson, Garn, and Lugar.

Also present: Senators Helms, Hatch, and Hayakawa.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. The committee will come to order.

This morning's hearings concern Treasury sales of U.S. gold and a bill introduced by Senator Helms, S. 2843, which would require that a portion of any gold sold by Treasury be in the form of 1-ounce and ½-ounce medallions. This is the committee's first oversight hearing on Treasury gold sales and it comes at an important juncture for U.S. policy.

Treasury has been selling gold since April at the rate of 300,000 ounces per month. Last Tuesday evening Treasury announced that sales would be increased to 750,000 ounces per month, 2½ times the current rate. All sales will continue to be for minimum bids of 400 ounces.

The United States has been off the gold standard for 44 years, since the Gold Reserve Act of 1934. Gold ceased to play a major role in the international monetary system with the advent of floating exchange rates in 1973 and the ratification of the second amendment to the IMF articles of agreement earlier this year.

I think it's no secret that one of the reasons given for the gold sales is to help build confidence in the dollar and to prop up the dollar, but I think it's also clear this is at the very best a superficial, tentative assistance in that area. Obviously, to do anything significant about the dollar we have to cope with the inflation problem. That's the heart of it and if we don't adopt fiscal policies and monetary policies which are prudent and careful and inspire the confidence of investors here and abroad the dollar is going to continue to fall no matter what we do with gold.

Now a strong case can be made that getting gold out of the monetary system was the right step. Gold is a commodity, like copper, zinc, wheat, and sugar: it is not money. Many people feel that gold should not dictate the U.S. money supply or control the level of international monetary reserves. Gold prices are volatile and the supply of gold is largely controlled by the Soviet Union and South Africa. An increase in the role of gold in the monetary system would run the risk of putting those two countries in a position to manipulate the world's money supply.

Treasury has justified its sale of gold bullion from the United States gold stockpile since April as a further step toward eliminating the international monetary role of gold. What effect, if any, would the sale of gold medallions have on the role of gold in the monetary system? Does it matter in what form the gold is sold—bars, medallions, wafers, hunks or chunks—so long as it is not used for money?

Some people ask why the U.S. Government continues to hold gold, and to pay storage and security costs on a gold stockpile if gold is completely unnecessary for monetary purposes. Arthur Burns has said that Treasury should have started selling the gold sooner and in larger quantities. It has been suggested by others that the American taxpayer would be well served if Treasury were to announce its intention to sell off all the gold within a few years to anyone who wants to buy it at the best price that can be obtained.

At present, despite our huge gold stockpile, the United States is a net importer of gold. Last April Treasury stated that gold sales would reduce trade deficit "either by increasing exports of gold or by reducing the imports of this commodity." The latest information on net U.S. trade in gold shows a net deficit this year just as large as last year when there were no gold sales. Why have Treasury's sales failed to reduce the net deficit in gold trade?

A recent trend in the composition of U.S. trade in gold may have important implications for the bill which Senator Helms has introduced: U.S. imports of gold bullion are down, but imports of gold coins are up. Would the sale of gold medallions reduce gold coin imports and thereby be more effective than bullion sales in reducing the U.S. trade deficit in gold?

The Helms bill raises other questions which I hope the witnesses will address this morning.

First, what effect would U.S. Government production and sales of gold medallions have on private producers and sellers of gold medallions and other gold objects?

Second, how would the medallions be minted and marketed, and at what cost?

Third, would the sale of medallions yield significant additional revenue to Treasury relative to the sale of gold bars?

Fourth, would Americans of limited means be able to purchase the medallions conveniently without paying a large markup?

And finally, would the sale of such medallions significantly reduce the sale of Krugerrands and other imported gold coins and medallions in the United States?

We are honored to have as our first witness the author of the bill, the distinguished former member of this committee and a fine Senator, Senator Jesse Helms. Go right ahead, Senator.

STATEMENT OF JESSE HELMS, U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Senator HELMS. Mr. Chairman, I want to tell you how much I appreciate the privilege of serving with you and the other members of this distinguished committee. I'm glad to be home and I thank you so much for the opportunity to discuss and debate the Gold Medallion Act of 1978.

I know that your hearing is also on the topic of the wisdom—or lack thereof—of gold sales from the U.S. gold reserves. I generally oppose the gold sales because as Presidents Kennedy and Johnson's Under Secretary of the Treasury Robert Roosa said of our gold, "In this world, I think we should retain our ultimate assets. It's the storm cellar we should retain in case the system breaks down." I made a brief statement on the stepped-up gold sales when they were announced this past Wednesday and I ask unanimous consent that that be printed in the committee record.

The CHAIRMAN. Without objection, so ordered.

Senator HELMS. I thank the chairman.

[Complete statement follows:]

STATEMENT OF JESSE HELMS, U.S. SENATOR FROM THE STATE OF NORTH CAROLINA

Mr. Chairman, I appreciate the opportunity to testify today, and I am grateful to you and your Committee for providing an opportunity to dicuss and debate the Gold Medallion Act of 1978.

I know that your hearing is also on the topic of the wisdom—or lack thereof—of gold sales from the U.S. gold reserves. I generally oppose the gold sales because as Presidents Kennedy and Johnson's Undersecretary of the Treasury Robert Roosa said of our gold, "In this world, I think we should retain our ultimate assets. Its the storm celler we should retain in case the system breaks down." I made a brief statement on the stepped-up gold sales when they were announced this past Wednesday and I ask that it be printed in the Committee Record."

I wish to spend just a few minutes this morning talking primarily about the Gold Medallion bill. This bill was drafted in a manner which would not affect the Treasury's authority to sell gold. If Treasury sells gold, however, this bill would require that some of it be sold in the form demanded by the American people—one-ounce and one-half ounce pieces. In the first year after enactment the bill would require that the first 1.5 million ounces of gold sold be made into medallions. Under the stepped-up rate of gold sales, that is only two months worth of gold. The amount is about equal to last year's importation of foreign bullion coins, mostly Krugerrands from South Africa.

The one-ounce medallion would have on one side the head of the statue of Freedom atop the Capitol, and it would be marked with the words, "One ounce fine gold," and the word "freedom." The reverse of the piece would be the Great Seal of the United States and the words "United States of America," and the year in which it was produced.

The one-half ounce medallion would have on one side some representation of the rights of individuals and the words "Human Rights," and "One-half ounce fine gold." The reverse would be similar to the back side of the "Freedom" medallion, with the Great Seal.

I believe strongly that this bill has merit. Most people I have spoken to agree with me. In fact the only source of opposition to this bill seems to be the U.S. Treasury Department. I would like to discuss some of the Treasury's arguments on the bill and in response to them point up some of the advantages of the bill.

I would like to also comment that I hope that any objections that might be raised by members of this Committee can be satisfactorily answered. I certainly have no objection to making some changes in this bill in response to the concerns of the Committee. In fact, these were the sentiments I expressed to the Treasury

Department several months ago, and I receive no suggestions, merely a statement of opposition.

First of all, I want to discuss the contention of Undersecretary of the Treasury Solomon that somehow this bill would have adverse effects on the exchange rate of the dollar. This is perhaps the most intimidating of arguments, because no one understands international monetary markets. I am quick to admit that I do not. I fear sometimes, in view of the tragic decline of the dollar in these markets, that perhaps our officials of the Treasury have trouble understanding them as well.

In response to this argument, I consulted with a number of authorities.

Former Secretary of the Treasury, William Simon, said this, ". . . the gold medallions proposed in S. 2843 should have no impact on either inflation or the value of the dollar in world markets.

"Insofar as exchange rates are affected by the balance of trade, the reduction of foreign gold coin imports which would result from the production and sale of U.S. gold medallions, would have a positive effect on the exchange rate.

"Inflation is basically a monetary phenomenon and recent growth rates in monetary aggregates mean we will have more inflation. The President and Congress must act to bring our horrendous deficit under control. The growth in the money supply must be slowed. Only these actions will stabilize the dollar at home and abroad. Gold medallions will have no effect on inflation or exchange rates, but indeed are consistent with the freedom to own gold."

At my request, Dr. Rudolf Geisler, a senior economist with the Bundesbank, considered the gold medallion proposal, and discussed this with his colleagues in the German Central Bank and the German Finance Ministry. It was, of course, an informal request, and certainly not an official response. But he has informed me that he and all of his colleagues are of the opinion that they, ". . . cannot see in any way how the selling of gold medallions in the amount called for in the bill could adversely affect the dollar exchange rate."

It is important to note, I believe, that the West German Bank has, of course, more than academic interest in this matter. They hold billions of dollars of U.S. Treasury Securities that drop in value every time the dollar declines, and they have every reason to be concerned about falling exchange rates.

Economists at one of the very largest American banks who daily deal in millions of dollars in foreign currencies could not fathom the Treasury Department's view that the Gold Medallion Act would adversely affect exchange rates.

In other words, the Treasury's arguments about exchange rates are so much smoke-screen.

What about the other arguments? There is the contention that the Gold Medallion bill would somehow undermine the President's "anti-inflation program." But there is a credibility gap there that no amount of gold medallions could fill. It just isn't relevant.

Gold sales have no effect on the money supply and the revenues gained by selling a few million ounces of gold are minute compared to the rate at which the Federal Reserve Board is creating money. Selling gold to sop up excess dollars is a little like attacking a flood with a sponge.

If officials at the Treasury believe that this is a matter of confidence in the dollar, they should take heed of those things that let the market know when to have confidence and when not to: things like the size of the deficit, and the rate of money supply growth.

Another concern of opponents of the bill is that the minting of gold medallions would somehow mean the U.S. stamp of approval on gold as an investment. I don't think that is the case at all. If people see the dollar going down, they will try to save themselves. In some minds, a gold piece is one way to do this.

Professor Miroslav Kriz, an international economist at Princeton University, states that, "The Treasury wants to 'not take any action' to suggest that gold is a sound way for Americans to invest their savings; they could sustain 'substantial losses.' The answer is that the Treasury's solicitude was perhaps, understandable years ago when the dollar was strong, respected and the envy of the world; today, it sounds hollow."

Professor Kriz also talks about Treasury's concern that the Gold Medallion Act would be "contrary to U.S. policy to reduce the monetary role of gold," saying, "When will the Treasury recognize that governments abroad are not ready to give up gold as an instrument of monetary reserves? This is evidenced, among other postures, by the fact that governments abroad, for the most part, have added to reserves the gold restituted by the International Monetary Fund; that some of the poorest countries have opted for gold rather than aid from the IMF under the so-called noncompetitive bidding in the Fund's gold auctions; that Germany and France are contemplating a large stabilization fund for a 'zone of monetary stability in Europe' in which part of the contribution will be in gold—gold presumably revalued at market-related prices, etc."

Former Secretary Simon agrees with the announced policy of reducing the monetary role of gold, but he says, "I firmly believe that the international role of gold in monetary affairs should continue to be reduced. I represented the United States at the International Monetary Fund meeting in Jamaica at which agreement was reached on eliminating any gold requirement for the settlement of international accounts between IMF members.

"It is also my belief that there is no need or proper role for gold in our domestic monetary system. But, I believe that critics of the Gold Medallion Act are in error when they perceive this proposal as contrary to U.S. policy to reduce the monetary role of gold. The proposed pieces would have no specific dollar value and they would not be legal tender."

Finally, I'd just like to add a word about what I think the real fear of the Treasury Department is.

My suspicion is the Treasury Department is afraid that the production, by the United States, of a gold piece will be an automatic incentive for more and more people to take an interest in holding and dealing in gold. This is the same kind of thinking, Mr. Chairman, that resulted for 40 years in the elimination of the freedom of Americans to even hold gold.

It is the kind of paternalism that is just not becoming of the government of what we like to call "the land of the free."

Treasury should be less concerned with what was economic policy in the Depression and what the wishes of the American people are today.

This bill has been drafted so that if there is insufficient demand for the medallions, the program can be phased out. The bill is drafted so that the American people can decide.

What is important is that the gold medallions will reduce Americans' demand for foreign gold pieces. The U.S. will import about three million ounces of gold coins this year. That is about $600 million of imports. Production and sale of the U.S. Freedom and Human Rights medallions will reduce this demand.

Reduced imports of gold pieces will help our balance of trade.

Sales of gold in the form of medallions will bring in more revenue to the Treasury than the sale of similar quantities of ingots. Perhaps much more.

Mr. Chairman, many thoughtful citizens—economists, teachers, businessmen and others—have written in support of S. 2843. I hope I might be able to submit their statements for the Committee Record. In addition, Former Treasury Secretary Simon, Senator Laxalt, Congressmen Symms and Hansen have asked me to see that their statements of support could be included in the Record as they are unable to be here today to testify.

Mr. Chairman, there is no one in this room that despises the harm caused by inflation more than I. My deepest desire is that we would have again an honest dollar that does not rob people and distort the economy. This small bill will not change the present situation. The Gold Medallion Act will, however, respond to the clear demand of the American people. We would be less than responsive to them to ignore their views.

The CHAIRMAN. Senator Helms let me ask you first, what effect, if any, do you believe your bill would have on the monetary role of gold?

Senator HELMS. None at all.

The CHAIRMAN. Well, you were the one who won, over considerable skepticism and opposition, the right to end the gold clause that we had had since 1934 so that contracts can be settled now with gold. That's your achievement and I thought it was a considerable achievement.

Senator HELMS. With the help and cooperation of the distinguished Senator which I appreciate very much.

The CHAIRMAN. Would the medallions then be available for people to use in contracts if they wished to do so and in that way would that have any monetary effect in your view?

Senator HELMS. Well, it would be an unusual set of circumstances, but I guess it could, yes, just as any other commodity.

The Chairman. And you have already indicated that you don't believe that your bill would have any effect on the gold price and on the exchange rate of the U.S. dollar.

Senator Helms. No, sir; I do not. I might say that Krugerrands are not used in gold contracts now.

The Chairman. Would there be any tendency for this bill to encourage people to buy and hold gold as a hedge against inflation?

Senator Helms. It could be. That would depend on their attitudes, but I think the question is the freedom of the individual to exercise that option.

The Chairman. So the purpose isn't to persuade them to hold gold as a hedge against inflation; the purpose is to give them the freedom to do so if they wish to?

Senator Helms. That's correct.

The Chairman. Why should the U.S. Government inject itself further in the private gold market by minting gold medallions, a private market which includes such institutions as U.S. banks, gold dealers, and so forth?

Senator Helms. Well, I think I covered that somewhat in my statement, Mr. Chairman. The real question is the freedom of the American people and the opportunity for the American people to purchase some of the gold that our Government is going to sell; the question of why should we ship it overseas for sale when our own people here at home would like to buy it in small quantities? It would have no effect on private producers. No one in the bullion coin market has protested insofar as I know. I haven't checked on that. The sales are primarily Government pieces, as the chairman knows.

The Chairman. Now, Engelhard Minerals & Chemical Corp., produced a 1-ounce gold medallion called the American Prospector. They decided not to go into large-scale production and marketing of that medallion because they could not meet the miniscule markup on the Krugerrand and make a profit. South African gold producers effectively subsidize Krugerrands, as I understand it. They don't care about a profit over the bullion content. How could the U.S. Government produce a medallion which matched the Krugerrand in price without also subsidizing such sales?

Senator Helms. Well, I have a Krugerrand here. I might be quick to say it does not belong to me. It belongs to one of my wealthy staff members. He handed it to me as I came over and he suggested that I flip this thing, but I'm going to take it out of the plastic case. But, Mr. Chairman, this is a market-related proposition we're talking about and I'm just persuaded, based on the interest that has been expressed to me and that I have noted in the various specialized media, that there is a demand and I think it's something we ought to try and I don't think it would require any promotion. As a matter of fact, I think it would carry its own weight.

The Chairman. Yes, but the question is, if we issue an American medallion that has the same gold content as the Krugerrand, since they subsidize their Krugerrand, wouldn't we have to do the same in order to match them in the market? After all, the market under those circumstances would buy the Krugerrand unless we provide an equal subsidy I would think for our medallion, unless people just buy it because it's American and not South African. There will be a few who will do that.

Senator HELMS. I'm frankly not familiar with the subsidization of the Krugerrand. This medallion costs $223 plus the District of Columbia taxes for my staff member to buy it.

The CHAIRMAN. Let me ask this then: We will pursue this with the Treasury. Supposing it's established that the Krugerrand is, in fact, subsidized. Then would you feel the United States would be justified to subsidize the proposed medallion?

Senator HELMS. No, sir.

The CHAIRMAN. At a cost to the American taxpayer?

Senator HELMS. No, sir.

The CHAIRMAN. You would not?

Senator HELMS. No, sir. I don't think it will be necessary.

The CHAIRMAN. I have just one final question, Senator Helms. Is there a potential conflict between two of the objectives you set for medallion sales; first making maximum profit for the Treasury, and, on the other hand, displacing sales of Krugerrands? The higher the markup on the medallions, the less excess there will be in displacing the Krugerrand, which sells at no more than 8 percent over the spot bullion price. So you can't have it both ways. If you want to make a profit on it for the Treasury, you won't sell many of them; and if you cut the price down so you can sell a lot of them, there won't be much of a margin.

Senator HELMS. Well, Mr. Chairman, I find it difficult to answer a hypothetical question. I would not suggest that we get into any selling contest with the Krugerrand and I hope we won't. I will have to say the purpose of my bill is to make American gold available to American people who cannot afford to buy an ingot. I think it will work and there's a lot of support for my feeling that it will work, but as I said in my statement, if it does not work it could be phased out or stopped; but I think it's an effort that ought to be made.

The CHAIRMAN. Very good. Before I yield to Senator Garn and Senator Lugar, let me just apologize to Senator Hatch. As you know, Senator Helms is the author of the bill and I thought we'd question him first and then listen to your statement.

Senator HATCH. I do have to go.

The CHAIRMAN. I beg your pardon. I didn't realize that.

Senator HATCH. Why don't I put my statement in the record and that would satisfy me.

The CHAIRMAN. I apologize very much, Senator Hatch. We should have put you on, but I had no idea you were in a hurry.

Senator HATCH. No problem, but the CETA bill is up which is one of my committee's bills and I'm a little itchy to get over to the floor, but if I could, Mr. Chairman, allow me to place my statement in the record. I do believe that Senator Helms will be able to answer questions on the bill better than I, but I think some aspects of my statement will be interesting to the committee.

The CHAIRMAN. Thank you very much.

Senator GARN. There's only one problem with that. This is the first time I have had my junior colleague before my committee and I had 351 questions to ask him under oath.

Senator HATCH. Let me say that would be much more interesting than the CETA bill.

Senator GARN. On many subjects that have nothing to do with the gold medallion bill.

Senator HATCH. I appreciate that, but knowing your predilection for always going for the jugular——

The CHAIRMAN. I can testify to that from my experience yesterday in his committee when my jugular came out pouring blood.

Senator HATCH. All I can say is you have an interesting experience having Senator Garn on the committee and I'm very proud and delighted to have him as my senior Senator and he's been a great friend as has been every other Senator.

Senator GARN. I will save my questions for another day.

Senator HATCH. I was really more worried about Senator Lugar's questions. Thank you very much.

[Complete statement of Senator Orrin G. Hatch follows as though read:]

STATEMENT OF ORRIN G. HATCH, U.S. SENATOR FROM THE STATE OF UTAH

Senator HATCH. Mr. Chairman, in 1934 when the American people were forced by law to deposit their gold through the office of the Treasury and into Fort Knox, they were reimbursed at the rate of $20.67, and later at $34.45 an ounce. Since then, the American dollar has depreciated to the context that 1 ounce of gold now sells for more than $200. In buying this gold the U.S. Government obviously made a very shrewd investment; its gold reserves now have a dollar value 10 times greater than that of the original purchase. Unfortunately, this investment was made by taking from the American people something that does not depreciate, and giving them in return currency whose value has been steadily decreasing for years.

Many Americans believe that as the Government has realized a great gain in the dollar value of its gold stocks, that gold is a good hedge against the depreciating dollar. Since 1975, Americans have been allowed to own gold, and many have taken advantage of this privilege. Also since 1975, the U.S. Treasury has been selling gold on the market. Paradoxically, however, the Government is demonstrating a marked unwillingness to make gold available to our citizens. Treasury now sells the precious metal in 400-ounce units—those interested in buying gold but who are not willing or able to spend a minimum of around $80,000 are precluded from American gold sales. Most of the gold the Treasury sells is bought up by foreign firms. Americans who are interested in buying gold in smaller quantities must obtain it from abroad. The importation of foreign gold pieces is now occurring on such a scale that it is hurting our balance-of-payments situation.

The demand in the United States is for gold in small quantities, yet the Treasury persists in selling it in bulk. Obviously the administration is not eager to see Americans buying gold. Why? A recent letter from Secretary of the Treasury Blumenthal lends some insight into the administration's rationale. The letter states, "I do not believe the U.S. Government should permit the erroneous impression to be created that it cannot or will not take the necessary steps to combat inflation and that the public therefore needs to buy gold as a hedge against inflation."

With the inflation rate rising above 10-percent yearly, there is no question in anyone's mind but that the Government is finding inflation a tough problem with which to deal. But it is the American people, not the Government, that are having real problems coping with everrising prices. I strongly believe that the Government should not hinder anyone in his attempt to protect himself against inflation in whatever way he sees fit, as it is doing now by its present method of selling gold.

The Gold Medallion Act of 1978 would return to the American people the chance to own American gold. I believe that passage of this bill would be only fair to the citizens who have seen their currency depreciate enormously over the years, and who have been helpless to protect themselves from the ravages of inflation. People have demonstrated their desire in the marketplace to have this kind of item. For the U.S. Government to leave this market solely to the South Africans, to the Mexicans, and now soon, the Canadians, is foolish.

Senator GARN. In the interest of time, not only for Senator Helms but the other witnesses, I will submit my statement to the record as well and only announce now that I do support Senator Helms' bill and am happy to cosponsor it. I will insert it in the record.

[Complete statement follows as though read:]

STATEMENT OF JAKE GARN, U.S. SENATOR FROM THE STATE OF UTAH

Senator GARN. Mr. Chairman, the ongoing sales of gold bullion from the U.S. stockpile illustrates the need for action. Since the United States first began auctioning off its gold 3 years ago, 90 percent of the bullion sold has gone to foreign interests, primarily banks. This has occurred because U.S. gold sales are presently aimed strictly at the bulk purchaser. Those of us who cannot afford to pay $80,000 for the minimum unit of gold sold by the U.S. Treasury—that is a 400-ounce brick—can forget about buying American gold.

This method of selling gold is ludicrous. If we must sell our gold—and I, for one, maintain that we should not—why should we not sell it to American citizens in the form they want. After all, they were the ones who contributed the gold to the U.S. reserves in the first place.

It is not as though Americans do not want to buy gold. Last year we imported more than 1.6 million ounces of the precious metal from Austria, Mexico, and South Africa. Of course, this gold did not enter the country in 40-ounce bricks; it arrived in the considerably smaller form of bullion coins, such as the Krugerrand.

This massive importation of foreign gold is not only unnecessary, it is hurting our balance of payments situation. If the U.S. Treasury were to sell gold to meet the American demand—that is, in small 1-ounce or ½-ounce units—the importation of foreign bullion coins would be cut dramatically.

The Gold Medallion Act of 1978 would accomplish just this. While not interferring with the Treasury's ability to sell gold, this bill would provide for the production of 1-ounce and ½-ounce gold medallions. These medallions would have no monetary value, but they would meet the demonstrated American demand for bullion coins.

In the first year after enactment in which gold sales are held, the first 1.5 million ounces sold would have to be made into medallions. In any subsequent years, production would depend on what the demand for the medallions was. In other words, say, the Treasury decided to sell 2 million ounces a year for 3 years. The first year, 1.5 million ounces of medallions would have to be produced.

Though the bill does not specify a form of sale, I would expect that public bids would be solicited and several individual auction sales of medallions would be held. The number of bids received at a price significantly over the bullion price of gold, would illustrate the demand for such medallions. I venture to say that the demand would be tremendous for such a medallion. In future years, a high demand would require a higher percentage of gold sales to be made into medallions.

Three years ago, we won a fight and were able to use gold for the first time in 30 years. Last year, we won back the freedom to again make contracts denominated in gold. This year, let us restore to the American people the ability to purchase American gold.

Senator Helms, it seems to me that it is important that Americans be able to buy gold and we do have that right now if you have $80,000.

Senator HELMS. That's the point.

Senator GARN. There are not too many of us, even at our "inflated" salaries as U.S. Senators, who can afford to buy $80,000 chunks of gold, so I think it's important that we give the opportunity for the so-called little people that we hear so much about in the populist rhetoric in the Senate, to be given the opportunity to buy in small amounts. So I assume that is one of the major purposes of your bill, to let the small investor have that opportunity.

Senator HELMS. It is.

Senator GARN. I would assume that some of the questions Chairman Proxmire asked cannot be answered at this time. I think—and I agree with what you said—that it is important to give people that opportunity. I would expect—and this is just an opinion based on no facts whatsoever—that given the opportunity, that Americans probably would be more desirous of buying a U.S. medallion rather than a South African. I would expect that even if the gold content were the same that they might be willing to pay a premium for an American one. Maybe I'm just old-fashioned. I'm that way. I tend to buy American products where I can. I think there may be some intangible element of patriotism there as far as gold outflow and with all the Krugerrands that are imported every year—1.6 million ounces per year—that it might be cut dramatically and save some of the gold outflow. But again, those are just opinions. I think it's important that we make this opportunity available. We try a lot of experiments. We spend a great deal of money and I, too, agree with you and the chairman, I would not want to get into a subsidized situation and if that were the case it should be halted; but we subsidize an awful lot of things and spend a lot of money and I see no reason why it wouldn't be worthwhile at least on a trial basis. I don't really think we or the Treasury can answer some of those questions at this point. But that opportunity that your bill gives to allow the small American investor to buy gold I think is worth the trial.

Have you conducted any additional surveys or studies other than what you covered in your statement to indicate there would be a fairly good market for the medallion?

Senator HELMS. Late information has come to me. One bank has offered to buy the whole production at $10 million above the bullion price, and I wish you had told me that earlier because that would be responsive to Senator Proxmire's question.

Have we received any surveys? No, we have no surveys, Senator.

Senator GARN. But there is one bank that would buy the entire amount proposed by the bill in the first year with a $10 million profit? Well, that answers the question of the first year. Do you believe that it would cut substantially into the amount Americans are buying in Krugerrands from South Africa?

Senator HELMS. Senator, I think it would. While you were speaking—and incidentally, I appreciate your support of the bill. I come from a rather erudite community. The capital city of my State has 57 colleges there and a research triangle nearby, and I was just wondering what percentage the people of Raleigh, N.C., and the immediate environs even know how to buy a Krugerrand, but they would know how to buy a medallion produced by their Government.

So I think if I could go back to the question by the distinguished chairman, there will be no subsidy necessary. As a matter of fact, I think that the pressure might be the other way, after it works for a couple years, to increase the production of the medallions, but that's sheer speculation on my part. But the Senator can apply the question to his own State. How many people know how to buy a foreign gold coin?

Senator GARN. All I can speak for is the senior Senator from Utah and I don't know how to buy one today. I would have to ask somebody where do you go, where do you get one.

Senator HELMS. And pay a premium, and if you live in the District of Columbia pay a tax on it, as my wealthy staff member paid on this. Incidentally, I will give it back to him before I lose it.

Senator GARN. Senator Proxmire almost lost a dollar one day doing that.

The CHAIRMAN. It wasn't my dollar, as usual.

Senator GARN. You have already answered my question about the effect on the economy, that it would have none. There are some other people who are concerned that it might be used as legal tender. I would expect you would agree with me that it would not be very common for people to be floating medallions worth $200 and some odd dollars. I don't think that's a very realistic point, that because they resembled a coin, even if they were not intended to be, that they would be used. Would you agree that's a rather impractical possibility?

Senator HELMS. Senator, I think it's exceedingly unlikely. In the first place, there would be no denomination on the 1 ounce or ½ ounce medallion. I don't see how they could use it as a coin of the realm. It would be exceedingly risky and I just don't think it will happen and I think any suggestion along that line is just obfuscation of the issue.

Senator GARN. You have already discussed it two or three times, but there's a question on whether it would cost the taxpayers anything. It would be my expectation that it would not, but as a cosponsor of your bill and what you have already said as the chief sponsor, if it did, we would not be in favor—if it proved in a test that it required a subsidy, we would not be in favor of continuing it?

Senator HELMS. I certainly would not.

Senator GARN. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Stevenson.

Senator STEVENSON. Thank you, Mr. Chairman.

I regret that I didn't hear our colleague's testimony, but I look forward to reading it and I think he has submitted a proposal which deserves very serious consideration.

I just had one question. Senator, if the medallions would enlarge the market, the demand for gold, for American gold, as you say, the effect would be to increase the price of gold. If, as you indicated, the medallions enlarged the market and the demand for American gold, the effect would be presumably to increase the price of gold, and wouldn't the principal beneficiary of the increase in price be the Soviet Union?

Senator HELMS. Well, I don't accept your premise, Senator. What we're talking about is letting the American people buy in small quantities some of the gold held by their Government rather than selling it overseas to the Soviet Union or whatever other country. I don't see how it would make any difference.

Senator STEVENSON. Well, if they're going to buy gold and they're not otherwise buying it, as you and Senator Garn were indicating, you're increasing the demand. When the demand increases, by the law of supply and demand, it increases price. And the Soviet Union, along with the Republic of South Africa, are the principal suppliers of gold. Therefore, isn't it as elementary as the law of supply and demand that they would be the principal beneficiaries?

Senator HELMS. I think you're overlooking that they are already buying it in the Krugerrand principally, the South African.

Senator STEVENSON. I don't have figures for the Soviet Union, but for every $10 increase in the price of gold South African export prices are increased by roughly $230 million, an average price of $190 an ounce this year will boost gold earnings to $3.2 billion. Last year it was something over $4 billion.

Senator HELMS. Well, if the Senator will forgive me, I have difficulty in following the line of his question. You see, Senator, this would have no effect on either the demand or the price of gold. It would displace what the American people are now spending to buy foreign medallions, the Krugerrand, and so forth. So I am unable to respond to the Senator's question because I can't accept the premise which you have given.

Senator STEVENSON. Well, I think that answers the question, though I still am very concerned that this proposal will end up as a net overall increase in the price of gold with the other countries producing the gold being the principal beneficiaries, but we will have to ask that question later. Thank you, Senator.

Senator HELMS. Thank you.

The CHAIRMAN. Senator Lugar.

Senator LUGAR. I appreciate very much the testimony of Senator Helms and I support the analysis that you have brought and, likewise, am pleased to be added as a cosponsor of the bill.

Senator HELMS. Thank you, Senator.

STATEMENT OF RICHARD G. LUGAR, U.S. SENATOR FROM THE STATE OF INDIANA

Senator LUGAR. It seems to me that basically the argument that we are looking at here is the argument of inflation. I think this is an important principle of freedom, to invest in gold coins, that being one of the options left to Americans who are attempting to maintain some wholeness in their estates. Farm lands is another possibility. These are rather large and difficult investments to come to whereas gold coins would be a good bit simpler, and it appears to me that the issue has been well drawn in the testimony that's going to be given by Mr. Bergsten later on in which he says there are three objections the Treasury has to this. First of all, the medallions would tend to create the erroneous impression that the U.S. Government intends to ply the public with officially used gold pieces as a hedge against inflation. Now that's an extraordinary argument, but an important one, because in the panel we are about to hear, Mr. Bergsten is going to point out that something does need to be done about inflation but he analyzes the cause of inflation and suggests we would have to deal with wages and a number of things.

It seems to me anybody who comes to an analysis of inflation, as I think you do and I do, where currently there is an underlying inflation in our economy of 5 to 6 percent annually forever with gusts up in the double digits on occasion, is going to take a look favorably at ways in which Americans might have options to try to remain whole in the face of this.

Now, indeed, if the policy of the Treasury Department, albeit of the administration as a whole, had been more successful with regard to inflation, it is conceivable that the interest in gold right now would be substantially less; but indeed, we are in a disastrous position with regard to foreign exchange payments. The value of the yen with regard to the dollar reaches us as we drive in every morning with new radio reports of new assaults upon the dollar. The purpose I see of this legislation, in addition to freedom for Americans to invest in smaller increments, is likewise to cast a vote in a very decisive way that the role of the Federal Government currently in terms of its monetary and fiscal policies is totally inadequate.

I feel that Americans who will buy these medallions will be casting a vote saying that the policies the Congress of the United States is now engaging in—massive deficit spending even in the face of this hemorrhage abroad—are simply out of tune with the sentiment, most normal Americans who have kept some commonsense in the midst of this.

I can understand why the Treasury is embarrassed that the subject even arises, but I'm not sympathetic with that embarrassment. My guess is that the Treasury has brought it upon themselves and aided and abetted by a good number of Members in the Congress of the United States.

So even as we discuss the budgets now going on it offers very good reasons why Americans ought to buy gold if they want to remain whole.

Now it is absurd to suggest that the Treasury position here, that is the United States is offering encouragement to invest in gold. That's preposterous. Quite the contrary, the position of Treasury is to denigrate the whole idea of gold.

Senator HELMS. You're exactly right.

Senator LUGAR. And third, that somehow brings us back to gold and we have been trying to demonetize it and so forth simply flies in the face of common sense apparently of people throughout the world who perceive that in the Western democracies there's propensity to produce inflation year in year out, and those involved in public life supply do not want to be held to any standard of accountability.

I don't want to put words in your mouth because you have said it very eloquently in other forms. I would simply augment what you have said as the author of this particular bill and I have no questions, just simply commendation plus my own editorial comments about why I think this is important.

I think without trying to draw some useless analogy it's appropos to say in the area of trying to remain whole in terms of their financial resources this is a proposition 13 of sorts. It is a referendum in the fiscal and monetary area in which people would have an opportunity to purchase something which the chairman has pointed out through his questions that might not be a cost effect. It may be things are going to be sold at a profit to the Treasury. Maybe the ordinary investor doesn't make money off of it. You're saying he has the freedom to do that with his eyes open and it seems to me it's a good option for him to have.

Let me just ask this question of you for the record, Senator Helms. The thought has been given that the Krugerrand is an option with regard to this and it's heavily marketed and therefore sold barely above cost, even a suggestion that the South Africans are using the Krugerrands as a promotional device to sell gold almost in a way that we might send trade missions out to sell grain or something of this variety.

What is just your off-the-top-of-the-head thoughts about South Africa in two respects: Are they trying to market gold? Is it a deliberate policy that you can see of any Nation in the world that is attempting to advertise and simply get rid of its goldstock? And, second, is it not a fact that many media throughout the country because of pressures within communities have in fact asked television stations, radio stations, newspapers, not even to cover the Krugerrands ads or to accept them because of opposition to South Africa, South African policy, so you have the almost interesting byplay argument with regard to South Africa, even in the distribution of the Krugerrand.

Do you have any comments about this?

Senator HELMS. Well, that would get me involved this morning in a discussion of our position with respect to South Africa and Rhodesia and maybe I ought not to get into that. But let me say, Senator, that I find it astonishing that the Treasury Department, with a straight face, would give as its reasons the things that you have stated in opposition to this bill. I have a friend down in North Carolina, a very prominent attorney, who is the most sought-after after-dinner speaker in the State, and he knows how to couch his language and spice his language with all sorts of colorful phrases, and when he wants to rise to the height of ridicule of someone or something he said, "It's silly as a 10-cent watch," and that's about the way I regard the Treasury's position with respect to this bill, with all due respect to the Treasury Department. I know the representatives coming here today are instructed to take the position that they will take, but it just doesn't make any sense to me to say to the American people, if you've got $80,000 you can buy some part of the gold of your Government, but if you don't have that kind of money you can't have any of the gold belonging to the U.S. Government. I think that borders on being reprehensible and I think if the average American out there understood that this is indeed the position of the U.S. Government I think there would be a great deal of indignation among those who could not afford to buy a ½-ounce medallion or 1-ounce medallion because the American people prize their freedom to do things and to aspire to do things, and I think that gold belonging to the Government of the United States ought to be made available to the people of this country, certainly at any time the Government of the United States proposes to sell it abroad.

Senator LUGAR. Senator Helms, this repeats in a way the question of Senator Garn, but let me just for the record make certain. Your proposal is one in which there would be no additional cost to the mint or the Treasury. In other words, this would be a self-supporting program.

Senator HELMS. Yes; absolutely.

Senator LUGAR. And conceivably a profitable one as far as the U.S. Government is concerned in terms of the sale of these medallions.

Senator HELMS. I think it will be. It's all speculative at this point, but——

Senator LUGAR. The testimony we are about to have as far as startup apparatus and so forth is simply irrelevant and the thing is simply going to subsume these costs and we are going to sell the medallions at more than that?

Senator HELMS. That's right.

Senator LUGAR. Thank you very much.

The CHAIRMAN. Thank you very much, Senator Helms, for a most competent and impressive presentation of your bill. We appreciate it very much.

Our next witnesses are the Honorable C. Fred Bergsten, Assistant Secretary for International Affairs, Department of the Treasury; and Joe W. Solomon, Administrator of General Services, General Services Administration.

Mr. Bergsten, as you can tell, it's about 11 o'clock. This may be the last day before the Senate recess. We have legislation on the floor. We are likely to have a vote soon and we would appreciate it, under the circumstances, if you could summarize your excellent statement and confine it if possible to 5 minutes or so. Mr. Solomon has a very short statement which I think will take about 3 minutes to present and then we can get right into the questions.

STATEMENT OF C. FRED BERGSTEN, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY, ACCOMPANIED BY ALFRED GOLDMAN, ASSISTANT DIRECTOR OF THE MINT

Mr. BERGSTEN. Thank you, Mr. Chairman. I will certainly do that. At the outset, I would like to indicate that seated on my left is Dr. Alfred Goldman, Assistant Director of the Mint, who is prepared to answer technical questions about gold minting if the committee has any questions of that nature.

[Complete statement follows:]

STATEMENT BY HON. C. FRED BERGSTEN, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

It is my privilege, on behalf of Secretary Blumenthal, to respond to your invitation to testify before the Committee on the question of Treasury gold sales and on S. 2843, a bill to provide for the issuance of gold medallions by the Treasury. You have asked us to address a number of specific questions, Mr. Chairman, and I will do my best to respond.

THE MONETARY ROLE OF GOLD

The monetary role of gold, both domestically and internationally, has been declining progressively over a period of many years due to the general recognition that neither gold nor any other commodity provides a suitable base for monetary arrangements—a view that is strongly shared by the Administration.

New gold production is strictly limited. Industrial demand is growing as GNP expands. Hence the residual supplies available for monetary use are both inadequate for, and unrelated to, the liquidity needs of an expanding national or world economy.

Furthermore, the extreme volatility in the market price of gold makes it a high risk asset. For example, the price of gold moved from a peak of $195 per ounce at the end of 1974 to a trough of $104 in mid-1976, and back to a new high of $215 on August 16. As of August 24 the price was about $203 per ounce.

To our knowledge, there is no major nation in the world today in which official gold holdings act as an effective limit on the domestic money supply. The United States abandoned the domestic gold standard by a series of laws enacted in 1933–34 which effectively remove the domestic monetary system's direct link with gold. Moreover, the provision in the Federal Reserve Act for a gold certificate reserve against bank required reserves was eliminated in 1968. In August 1971, the U.S. also ended the convertibility into gold of United States dollars held by foreign monetary authorities.

Since August 1971, transactions in gold between central banks have been very rare and limited primarily to a few instances in which gold has been used as collateral for official loans; there have also been a few instances in which gold has been sold in the private market to acquire foreign currencies to finance balance of payments deficits. Basically, there is now a general reluctance among central banks to acquire gold, given the fact that there is no fixed official price and no commitment by any central bank to buy or sell, and in view of the volatile private price. I have attached at Table 1 a listing of the gold holdings of IMF members which shows the slow but steady decline in world gold reserves since 1972.

The amended IMF Articles of Agreement, which entered into force in April of this year, formally removed gold from its previous role in the international monetary system. The amendments contain three major changes with respect to gold. First, the official price of gold is abolished and gold loses its formal position as a common denominator for the IMF (and thus the international monetary system). Second, gold is eliminated as an important instrument in IMF transactions, and the IMF is prohibited from accepting gold unless specifically provided for by a decision requiring an 85 percent majority vote. Finally, the IMF is empowered to dispose of its remaining gold holdings in a variety of ways. These actions constitute important progress in phasing out the monetary role of gold.

In 1976, the IMF initiated a four year program to dispose of one-third of its gold holdings, with 25 million ounces being sold at public auction for the benefit of developing countries and a further 25 million ounces sold to members in proportion to their quotas at the official price of SDR 35 per ounce. Thus far, the IMF has held 25 public auctions at which about 15 million ounces of gold were sold, at a profit of nearly $1.7 billion. About 12.3 million ounces have been distributed to members under the second program, of which the United States has received about 2.8 million ounces. (See Table 2.)

The United States has strongly supported these changes. This Administration, like its predecessors, considers gold to be an unsuitable basis for a stable monetary system. This view has been endorsed by the Congress, which authorized the actions removing gold from the U.S. domestic monetary system and approved the recent amendment to the IMF Articles by a wide margin. In its 1973 report on the amendment of the Par Value Modification Act, the Senate Banking Committee stated that "it is important that a reformed international monetary system calls for a diminished role for gold and eventual removal of gold from the center of the system. In that connection the Committee believes that sales of gold in the private market from official monetary stocks could make an important contribution to this goal and to more orderly conditions in international currency markets."

Consistent with the general move toward elimination of a monetary role for gold, and toward its treatment internationally and domestically like any other commodity, the United States repealed the prohibition on the holding of gold by private U.S. citizens effective December 31, 1974.

At that time, U.S. gold stocks totaled 276 million ounces, a sum roughly equivalent to nine times the world's annual production of new gold. Given the reduction in gold's utility as a monetary reserve, and the fact that strategic requirements are less than the volume of annual domestic production, gradual disposal of these stocks has been appropriate and has contributed to two important U.S. objectives—continued demonetization of gold and a reduction of our trade and current account deficits. (Since the United States acquired 2.8 million ounces from the IMF in 1977 and 1978 under the restitution program, the total U.S. stock despite the sales program has risen to 277 million ounces as of end June.)

At the same time, the market for gold can be affected importantly by the rate at which the United States and others dispose of gold, and we have faced the task of determining under what circumstances and at what rate we should sell.

Two auctions were held in 1975, at which a total of 1.3 million ounces of gold were sold. Shortly after the Carter Administration took office, Chairman Reuss of the House Banking Committee wrote to Treasury Under Secretary Solomon urging the resumption of U.S. gold sales. In response, Mr. Solomon stated that U.S. policy remained to sell gold from time to time to help meet U.S. demand for imported gold and in support of our objective of reducing the monetary role of gold. He indicated that the timing of such sales would depend inter alia on U.S. demand for gold imports, the IMF gold sales program, the needs of other countries to sell gold for balance of payments purposes, and progress towards eliminating gold's monetary role.

THE TREASURY GOLD SALES PROGRAM

On April 19, 1978 Treasury announced the initiation of a series of monthly gold auctions, indicating that auctions of 300,000 ounces each would be held for six months and that the amounts to be offered in subsequent auctions would be determined in the light of the initial experience. Four auctions have now been completed, and Treasury earlier this week announced monthly sales of 750,000 ounces beginning with the November auction. The new auction level will be maintained for four months, with amounts to be offered at subsequent auctions to be determined well before the end of the four-month series.

This latest action is being taken on the basis of two main considerations. First, the sales program has operated smoothly and the results to date (summarized in Table 3) have been quite satisfactory, with receipts of $230 million having reduced the U.S. trade and current account deficits by a roughly equivalent amount. Our judgment is that the market should be able to absorb substantially larger U.S. sales without serious difficulty.

Second, the United States must take all appropriate actions to improve its trade and current account positions. A variety of measures is needed—most importantly to reduce our energy imports, to combat inflation, to promote exports, and to encourage satisfactory growth abroad.

Sales of gold can also make a significant and quite tangible contribution to this effort. At the new level of 750,000 ounces per month, such sales will be at an annual rate nearly equal to the 9½ million ounces of net U.S. gold imports in 1977. At current prices, this would represent an improvement in the trade position of about $1.8 billon annually. The sales will also represent continued progress toward elimination of gold's monetary role.

The United States has been a major importer of gold. Net imports (on a balance of payments basis) last year totalled 9.5 million ounces, including 1.6 million ounces of gold imported in the form of coins. In the first half of 1978, net imports amounted to 4.8 million ounces, of which 1.5 million ounces were coins. In 1977, net U.S. gold imports were equivalent to roughly 18 percent of supplies coming onto the world market, including new gold production and sales from stocks. Sources of gold moving onto world markets and their estimated uses are shown in Table 4. These are rough estimates, but they help to provide a composite picture of the world gold situation.

Table 5 offers a similar estimate of sources and uses of gold for the United States alone. You will note that the domestic demand for gold, including demand for inventories and trading purposes, has been running about five times domestic production, leaving us primarily dependent on imports in the absence of sales from the Treasury stock.

The figures on gold transactions reported in the U.S. balance of payments statistics need a bit of explanation. The relevant data assessing the balance of payments impact of the gold sales program are those presented on a balance of payments basis. They differ substantially from the data series on U.S. gold trade compiled by the Census Bureau, which records the actual physical movement of gold into and out of the United States (Table 6). The Census data show large net exports of bullion in 1977 (rather than net imports), and also very small net exports during the first six months of this year.

In measuring the balance of payments impact The Census data must be adjusted to reflect the fact that, in addition to actual physical shipments of bullion into and out of the country, there are very large amounts of foreign-owned gold—especially those stocks held at the New York Federal Reserve Bank for the IMF and foreign central banks—already physically located in the United States. Sales from these stocks—for example, when the IMF holds one of its periodic auctions—into the private New York market are included in U.S. import statistics on a balance of payments basis, but not on the Census basis. Transactions between central banks are excluded entirely from the U.S. statistics on either basis. With the exception of transactions between central banks, all physical shipments of gold abroad show up in the Census export statistics. Since much of this gold originated in central bank or IMF stocks already in the United States, the Census data do not record the offsetting import and thus give the impression that the United States is a net exporter of gold when in fact we are a net exporter, as the data on a balance of payments basis show.

The principal purchasers of gold at the U.S. auctions have been seventeen firms and banks which specialize in gold trading. The largest purchasers of the 1.2 million ounces sold through August have been the Dresdner Bank (641,600 ounces), the Swiss Bank Corporation (145,200 ounces), the Union Bank of Switzerland (128,000 ounces) and the Bank of Oman (100,000 ounces). These firms normally purchase for the account of their customers; the ultimate buyer and his purpose cannot be identified.

The fact that large purchases have been made by firms owned by residents of the United Kingdom, Switzerland, and Germany does not necessarily mean that the purchases are for the account of foreign customers. These firms have branches in the United States and are active suppliers and dealers of gold in the United States. Furthermore, U.S. trade figures show that very little of the Treasury gold has actually been exported. This suggests that it is effectively being sold to U.S. customers, particularly since the Treasury gold is industrial grade needed by U.S. fabricators.

You have asked about the factors which determine the market price of gold, and about the impact of the Treasury sales on that price. There are no definitive answers to either question. There are two widely divergent types of demand for gold, and they react to changing conditions in very different ways. Industrial and commercial demand appears to follow a pattern quite similar to that of demand for other metals. When the economy is growing rapidly, industrial and commercial demand for gold will grow. When the price rises rapidly, particularly in relation to the prices of other metals which can be used as substitutes, the industrial and commercial demand slackens.

The hoarding demand for gold, however, rises when the fear of inflation grows and falls when there is a prospect of growing price stability. In some periods, the prospect for price stability has been such that hoarding demand has disappeared and there have been efforts to dispose of such holdings.

It is not possible to say what effect the Treasury gold sales have had on the gold price. As a significant addition to supply, one would expect some price effect. However, the impact has not been such as to disrupt the market or to be inequitable to American producers and firms holding gold inventories.

All sales at the Treasury auctions have called for payment in U.S. dollars. In announcing the sales program last April, Treasury stated that it planned to study technical aspects of selling gold against payment in West German Deutschemarks, with a view to determining whether sales of gold would provide a technically feasible and advisable means of acquiring Deutschemarks for use in countering disorderly conditions in foreign exchange markets.

The major gold markets, both here and abroad, operate in U.S. dollars. Prices are normally quoted in U.S. dollars and payment is normally made in U.S. dollars. Typically, non-residents of the United States who buy gold in these markets either use existing dollar balances or enter the foreign exchange markets to buy dollars with which to purchase the gold.

If Treasury were to call for payment in Deutschemarks at its auctions, it is likely that many buyers, whether American or foreign, would sell dollars on the foreign exchange market to obtain the Deutschemarks to make the payment. Holders of Deutschemarks might simply forgo purchases of dollars which they would have had to make to finance a gold purchase payable in dollars. In such cases, the initial impact on the dollar's position on the foreign exchange markets would be negative, and the subsequent sale of Deutschemarks by the Treasury would do little more than offset the earlier adverse impact. Nonetheless, the situation is not absolutely clear, and it may be that at some point such sales would appear desirable.

THE MANUFACTURE AND SALE OF GOLD COINS AND MEDALLIONS

American residents presently have ample opportunities to buy gold in small amounts, both in coins and other forms. A number of bullion coins currently being minted are available in the United States, such as the Krugerrand, Mexican peso, Austrian krona, and British sovereign. These coins contains ¼ ounce to 1 ounce of gold. Small gold bars, produced by Swiss banks, are also available in the ½ ounce and 1 ounce sizes.

The markup charged by South Africa on the Krugerrand, 3 percent over the bullion price, is enough to cover only the minting and advertising costs to the South African Chamber of Mines which markets the coin. The dealers, in turn, are free to take what markup they can, but efficient competition has generally limited this markup to an additional 2 to 3 percent above the gold value of the coin.

For this reason, private minters of gold medallions have been unable to compete effectively with the Krugerrand. One United States refiner, Engelhard Industries, did mint a one ounce medallion called the "American Prospector," which was sold to dealers at the same markup as the Krugerrand. However, only about 20,000 of these medals were sold before the effort was ended because it was felt that the advertising costs necessary to sell large amounts of the medallion would be too high to permit a reasonable profit.

Official production of gold medals and medallions has been very small. Most countries that have produced gold coins in recent years have done so for a combination of revenue and commemorative purposes. The markup on such issues has usually run from 50 percent to 100 percent over the market value of the gold in the coin, and the issues have usually been limited in order to enhance their numismatic value. For example, of the forty-nine countries that minted gold coins in 1977, forty-two limited the issues to less than 15,000 ounces each. The total official gold coinage by all countries other than South Africa in 1977 contained only 1.5 million ounces of gold. South Africa and the USSR were the only countries producing coins as a technique for marketing gold production, rather than for coinage profit or a commemorative purpose. The minting of Krugerrands amounted to 2.9 million ounces in 1977 and 2.7 million in the first half of 1978.

The American Bicentennial Administration produced three Bicentennial gold medals in 1976, as part of a program of selling bronze, silver, and gold medals. The Treasury sold gold to the Bicentennial Administration at the current market price and the Administration contracted with the Mint to produce the medals. Sales of the medals involved about 26,000 ounces of gold and yielded profits of about $2.7 million which were used to finance Bicentennial activities. This also was a limited issue sold as a collectors item.

PROPOSED GOLD MEDALLION ACT

Let me turn now to the bill on which you have asked us to comment. S. 2843 would provide that, upon determination by the Secretary of the Treasury to sell gold, all or part of the sales would be in the form of one ounce and one-half ounce gold medallions. The first 1.5 million ounces to be sold in the first fiscal year after the passage of the Act would be required to be sold in this form, while any remaining gold to be sold could be in a manner as the Secretary deems appropriate. In following years, the Secretary of the Treasury would have the discretion to determine the number of medallions to be produced and sold in light of anticipated import demand.

The medallions, although not legal tender, would have the style of coins, with the Great Seal of the United States on one side. The bill specifies that they would be sold at market-related prices and in a manner to encourage broad public participation. The purposes of producing the medallions would be to reduce sales to the American public of South African Krugerrands and other similar gold coins, and to provide U.S. citizens the opportunity to buy a United States-issued source of gold.

The Administration believes that issuance of gold medallions as called for by this bill would be unwise and inappropriate for several reasons.

On the one hand, there would be little, if any, additional balance of payments or budgetary receipts from the sale of gold medallions rather than gold bullion. In order to compete against the one ounce Krugerrand, any U.S. gold medallion would have to be priced close to the market value of the gold bullion content, as is the case of the Krugerrand.

In addition, there would be direct budgetary costs arising from the manufacturing and distribution of the medallion. The U.S. Mint estimates that the cost of minting a U.S. medallion would be about $2 per medallion. While the General Services Administration is unable to make an accurate estimate of distribution costs, the medallion would be expensive to distribute to the public on a wide basis. It should be borne in mind that the Krugerrand has been in production for some time and the distribution system is well developed and efficient. Furthermore, that coin is deliberately designed to develop a market for South African gold production, rather than to generate revenue.

While being of little or no budgetary or balance of payments benefit to the United States, the proposal in S. 2843 would have several negative effects. It would: (1) raise questions about the Government's determination to fight inflation, (2) offer official encouragement to U.S. citizens to invest in a highly speculative commodity, and (3) call into question the sincerity and credibility of the policy of eliminating the monetary role of gold, contrary to long-standing and widely supported U.S. policy. Accordingly, the Administration opposes the passage of S. 2843.

First, the issuance of these medallions would tend to create the erroneous impression that the U.S. Government needs to supply the public with an officially issued gold piece as a hedge against inflation. This implication would be particularly apparent in the case of a medallion deliberately patterned after the Krugerrand, because the latter is actively promoted as a hedge against inflation.

There may have been one or two instances where the intent of governments in issuing gold pieces was to absorb domestic liquidity as a means of fighting inflation. For the United States, however, such a policy would be totally impractical. No amount of gold sales which could realistically be absorbed by the market would have any appreciable effect on liquidity in the United States, nor would such sales meet any needs that cannot be met by use of existing monetary policy instruments.

It is thus clear that gold medallion sales could make no positive contribution to the effort to combat inflation. They are much more likely to be harmful to that effort.

Second, the production and sale of an American medallion, as specified in S. 2843, could be interpreted as a U.S. Government effort to encourage investment in gold. The fact that the medallions were minted by the U.S. Government and bore the Great Seal of the United States would suggest to potential investors that the U.S. Government was favorably disposed toward such investment.

As I have pointed out, gold is a highly speculative commodity subject to volatile swings in price. The investor in such a Government-sponsored medallion at the end of 1974 would have seen the value of his investment drop by 47 percent by mid-1976. We should thus avoid any implication that the U.S. Government is promoting such investment.

U.S. citizens who want to buy gold for investment or speculative purposes can, of course, do so in the private markets now. There is no need for U.S. Government involvement to enable U.S. investors, large or small, to buy gold coins or medallions.

Third, there are certain aspects of S. 2843 which would be inconsistent with the U.S. policy of continuing progress toward demonetizing gold. In introducing the bill last April Senator Helms suggested that a U.S. gold medallion would meet a commercial need in connection with payment of gold clause contracts. But such a use of these medallions would give them a clear monetary character.

In addition, the very existence of the U.S. Seal on the gold medallion would be an invitation to those who favor the remonetization of gold to press for designation of the medallions as legal tender—if not now, then at some subsequent date. Foreign governments might well question whether passage of this legislation meant that the U.S. Government was reconsidering its policy with respect to gold.

CONCLUSION

The trend toward demonetization of gold has evolved gradually but with steady progress over many years. This trend has reflected the inherent inadequacies of basing either a national or an international monetary system on a commodity. The United States and other nations have removed gold from their domestic monetary systems. Quite recently, the international community has followed this path formally through amendment of the Articles of Agreement of the IMF.

With the reduced monetary role for gold, continued large U.S. gold imports and trade deficits, and the existence of large U.S. gold stocks, it has seemed desirable to engage in a program of gold sales by the Treasury. The sales have been successful, and it is desirable to maintain flexibility to adapt the program to changing circumstances.

The proposed gold medallion legislation would add nothing toward achieving any of the objectives which are already being met by the bullion sales program. To the contrary, it would raise some important problems and questions concerning U.S. domestic and international economic policy. For these reasons we urge the Committee not to approve this proposal.

TABLE 1.—GOLD RESERVES

[End of period; millions of ounces]

	1972	1973	1974	1975	1976	1977	1978 (May)	Change [1] 1972–77	Change [1] 1978 to date
World	1,177.6	1,176.4	1,175.3	1,174.1	1,164.0	1.154.7	1,152.	−22.9	−2.6
IMF	153.4	153.4	153.4	153.4	149.5	131.6	128.6	−21.9	−3.0
IMF members:									
All countries	1,017.3	1,017.4	1,015.9	1,014.8	1,009.9	1,011.7	1,013.4	−5.6	+1.7
Industrial countries	850.1	850.7	850.7	849.4	849.3	857.0	859.1	+6.3	[2] +2.1
Other Europe	51.9	52.0	52.4	52.3	52.3	49.2	48.0	−2.7	−1.2
Australia, New Zealand, and South Africa	25.4	26.4	25.7	25.1	20.1	17.4	17.6	−7.9	+.1
Oil exporting countries	33.3	33.7	34.3	34.9	37.0	34.4	34.6	+1.0	+.2
Other less developed countries	56.0	54.7	52.9	53.1	51.3	53.7	54.1	−2.3	+.4

[1] As part of the 1975 IMF gold agreement, the IMF has initiated a program to dispose of one-third of its gold holdings by selling 25,000,000 oz at public auction for the benefit of developing countries and restituting a further 25,000,000 oz to members by sales at the official price. The change in IMF gold holdings in 1976 and subsequent periods reflect these transactions. Information on these IMF gold transactions are listed below and are based on data contained in the IFS.

IMF GOLD TRANSACTIONS: IN PERIOD

[In millions of ounces]

	1976	1977	1978 (to May)
Restitution		11.9	0.3
Sales	3.9	6.0	2.6
Total	3.9	17.9	2.9

[2] Reflects change in Japanese gold reserves due to transfer of gold between government accounts.

Source: International Financial Statistics, Aug. 1978.

TABLE 2.—IMF GOLD AUCTIONS: SUMMARY STATISTICS

Date	Pricing method	Place of delivery	Ounces bid (thousands)	Subscription ratio [1]	Number of bidders		Number of bids		Cutoff price	Average award price	Average market price [2]	Differential (11)-(12)
					Total	Successful	Total	Successful				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
June 2, 1976	Common	New York	2, 320. 0	2. 97	30	20	220	59	126. 00	126. 00	126. 78	−0. 28
July 14, 1976	do	do	2, 114. 0	2. 71	23	17	196	56	122. 05	122. 05	122. 23	−. 18
Sept. 15, 1976	Bid	do	3, 662. 4	4. 70	23	14	380	41	108. 76	109. 40	110. 38	−. 98
Oct. 27, 1976	Bid	do	4, 214. 4	5. 40	24	16	383	37	116. 80	117. 71	117. 75	−. 04
Dec. 8, 1976	Common	London	4, 307. 2	5. 52	25	13	265	33	137. 00	137. 00	135. 15	1. 85
Jan. 26, 1977	do	New York	2, 003. 2	2. 57	21	15	192	49	133. 26	133. 26	132. 55	. 71
Mar. 2, 1977	Bid	do	1, 632. 8	3. 11	21	7	187	14	145. 55	146. 51	144. 98	1. 53
Apr. 6, 1977	Bid	do	1, 278. 0	2. 43	18	11	136	22	148. 55	149. 18	147. 90	1. 28
May 4, 1977	Bid	do	1, 316. 4	2, 51	17	14	107	38	147. 33	148. 02	147. 85	. 17
June 1, 1977	Common	do	1, 014. 0	1. 93	14	13	75	35	143. 32	143. 32	143. 80	−. 48
July 6, 1977	do	Paris	1, 358. 4	2. 59	15	15	83	35	140. 26	140. 26	140. 80	−. 54
Aug. 3, 1977	do	London	1, 439. 2	2. 74	18	16	136	44	146. 26	146. 26	145. 93	. 33
Sept. 7, 1977	Bid	New York	1, 084. 4	2. 07	15	11	115	21	147. 61	147. 78	147. 25	. 53
Oct. 5, 1977	Bid	do	971. 2	1. 85	17	12	103	32	154. 99	155. 14	155. 13	. 01
Nov. 2, 1977	Bid	London	1, 356. 4	2. 58	18	7	90	21	161. 76	161. 86	161. 63	. 23
Dec. 7, 1977	Common	New York	1, 133. 6	2. 16	19	19	108	58	160. 03	160. 03	160. 45	−. 42
June 4, 1978	do	do	984. 8	1. 88	19	19	103	64	171. 26	171. 26	172. 18	−. 92
Feb. 1, 1978	do	Paris	598. 4	1. 14	17	17	76	62	175. 00	175. 00	176. 50	−1. 50
Mar. 1, 1978	Bid	New York	1, 418. 0	2. 70	19	16	127	76	181. 13	181. 95	183. 15	−1. 20
Apr. 5, 1978	Bid	do	1, 367. 0	2. 60	21	15	122	30	177. 61	177. 92	178. 53	−. 61
May 3, 1978	Bid	London	3, 104. 0	5. 91	24	17	192	36	170. 11	170. 40	170. 38	+. 02
June 7, 1978	Bid	New York	1, 072. 4	2. 28	21	15	137	28	182. 86	183. 09	182. 95	+. 14
July 5, 1978	Bid	do	797. 2	1. 69	22	19	101	44	183. 97	184. 14	184. 20	−. 06
Aug. 2, 1978	Bid	do	1, 467. 6	3. 12	21	20	117	42	203. 03	203. 28	203. 25	+. 03

[1] The ratio to total bids to the amount on auction, that is, 780,000 oz in the auctions from June 2, 1976, through Jan. 26, 1977, 525,000 oz in auctions from Mar. 2, 1977 through May 3, 1978, and 470,000 oz in subsequent auctions.

[2] Average of London fixing prices on auction day.

TABLE 3.—U.S. TREASURY GOLD SALES, 1978

	May 23	June 20	July 18	August 15
Number of bidders	44	31	27	17
Quantity bid (troy ounces)	1,364,000	1,036,000	1,385,600	564,400
Number of successful bidders	12	21	9	12
Quantity sold (troy ounces)	300,000	300,000	300,000	300,000
Price range of awards (per ounce)	$180.01–$182.35	$186.52–$190.29	$185.05–$189.00	$213.23–$216.17
Average price (per ounce)	$180.38	$186.91	$185.16	$213.53
London second fixing	($179.75)	($186.50)	($184.85)	($213.20)
Proceeds (millions of dollars)	$54.1	$56.1	$55.5	$64.1
Retirement of gold certificates	$12.7	$12.7	$12.7	12.7
Miscellaneous receipts of the Treasury	$41.4	$43.4	$42.8	51.4

TABLE 4.—WORLD SUPPLY AND DEMAND FOR GOLD

[In millions of ounces]

Production	1975	1976	1977
South Africa	22.9	22.9	22.5
Canada	1.7	1.7	1.8
United States	1.0	1.0	1.0
Other	5.2	6.5	5.8
Total	30.8	31.2	31.1
Net Communist sales	4.8	13.3	12.9
IMF sales		3.9	6.0
U.S. sales	1.3		
Other official (net)	−1.8	−1.6	1.8
Total other	5.3	15.5	20.7
Total supply	36.0	46.7	51.7
Fabrication demand:			
Jewelry	16.6	30.0	31.5
Other industrial fabrication	5.8	6.7	7.2
Official coins	7.8	5.9	4.4
Fake coins, medals	.7	1.5	1.6
Bars for hoarding	.2	5.7	2.2
Residual [1]	5.0	−3.0	4.9
Total	36.0	46.7	51.7

[1] Believed to be bars for investment, includes errors in estimating supply and demand.

Source: Gold 1978, Consolidated Gold Fields Ltd.

TABLE 5.—SUPPLY AND DISTRIBUTION OF GOLD IN THE UNITED STATES

[In millions of ounces]

	1975	1976	1977	January–June 1978
Source:				
Domestic production	2.2	2.0	2.1	1.3
Treasury sales	1.3			.3
Net imports of bullion	.6	4.8	7.9	3.3
Gold coin imports	1.7	1.3	1.6	1.5
Total	5.8	8.1	11.6	6.4
Uses:				
Industrial and commercial fabrication	3.7	4.7	4.9	2.3
Commodity exchange stocks [2]	.5	−.2	1.5	1.2
Industry stocks	.1		1.0	−.9
Coin purch ses	1.7	1.3	1.6	1.5
Unexplained	−.2	2.3	2.6	2.3

[1] Refinery production which includes gold from U.S. mining output and old scrap. These were 1,000,000 oz, and 1,100,000 oz respectively in 1977.

[2] Includes gold held by dealers to back up trading on commodity futures exchanges.

TABLE 6.—U.S. FOREIGN TRADE IN GOLD BY MONTH—1977–78

[In thousands of ounces]

	Gold bullion									
	Imports				Exports			Net imports and exports [2]	Gold coin imports	Total net imports and exports [1]
	Census [1]	IMF account	Foreign accounts [2]	Total	Census [1]	Foreign accounts [2]	Total			
1977:										
January	227		959	1, 186	1, 103		1, 103	83	160	243
February	175	780	167	1, 122	481		481	641	112	753
March	183	514	236	933	421		42	891	122	1, 013
April	161	32	259	452	13		13	439	111	550
May	194	1, 025	937	2, 156	671		671	1, 485	137	1, 622
June	615	529	165	1, 309	197	32	229	1, 080	92	1, 172
July	182		188	370	[3] 1, 642	64	1, 706	−1, 336	39	−1, 297
August	190		965	1, 155	664	18	682	473	124	597
September	601	525	560	1, 686	50	41	91	1, 595	94	1, 689
October	287	525	803	1, 615	1, 612		1, 612	3	121	124
November	1, 072		1, 120	2, 192	259		259	1, 933	157	2, 090
December	372	525	214	1, 111	510	11	521	590	345	935
Total	4, 259	4, 455	6, 573	15, 287	7, 244	166	7, 410	7, 887	1, 614	9, 491
1978:										
January	443	525	672	1, 640	1, 061	164	1, 225	415	227	642
February	191		43	234	146		146	88	231	319
March	773	525	55	1, 353	207	31	238	1, 115	365	1, 480
April	523	525	32	1, 080	1, 028	32	1, 060	20	158	178
May	289		129	418	188	14	202	216	321	537
June	434	463	638	1, 535	126		126	1, 409	187	1, 596
Total	2, 653	2, 038	1, 569	6, 260	2, 756	241	2, 997	3, 263	1, 489	4, 756

[1] Includes small amounts of ores, scrap, and base bullion.

[2] Gold delivered to and from foreign official accounts at the Federal Reserve Bank of New York.

[3] Exports for the month of July 1977 include 1,602,000 oz which were actually exported in prior months.

The CHAIRMAN. Thank you very much, Secretary Bergsten.

Senator Hayakawa has come and he has a very brief statement. It will take 4 or 5 minutes. We are delighted to hear from Senator Hayakawa.

STATEMENT OF S. I. HAYAKAWA, U.S. SENATOR FROM CALIFORNIA

Senator HAYAKAWA. Thank you very much.

Mr. Chairman, I strongly support the passage of the Gold Medallion Act of 1978. This seems to me a most rational piece of legislation; Americans want to buy gold, the Treasury wants to sell gold, and the Gold Medallion Act would insure that this mutually advantageous transaction could be made.

Unfortunately, Treasury officials do not seem to concur with me that this bill is logical and desirable. They maintain that the minting of the nonmonetary 1-ounce and ½ ounce gold medallions called for by this bill, "* * * would encourage our citizens to use gold as a substitute for U.S. legal tender as a medium of exchange." Treasury officials are worried that the 1-ounce and ½ ounce gold pieces, with no monetary value stamped upon them and with prices that would fluctuate with the price of gold, would come to be used as money, as U.S. legal tender.

In an earlier statement, I pointed out that these gold medallions would serve merely as American-made substitutes to South African Krugerrands. These latter pieces have been available to the American public for years without ever coming to be used in this country as money.

Recently, the Canadian Government decided to mint coins similar to the Krugerrand. These so-called Plain Jane coins will also be stamped with an unrealistically low face value. Mr. Costello, assistant managing director of the Mining Association of Canada, testifying before a committee of the Canadian Parliament, stated that, "the face value is * * * in effect immaterial provided that it is not set at a level to which the price of gold is apt to drop at any time in the foreseeable future."

As with the U.S. Government, the Canadian administration is dedicated to the "demonetization" of gold. That it is willing to produce what is, at least officially, a gold coin, without fear that that coin would ever circulate as money, is an indication that perhaps the U.S. Treasury should reconsider its position regarding U.S.-minted gold medallions.

Since there is such a large market in the United States for gold in small units. these proposed gold medallions would not be produced for exportation purposes, as are Krugerrands and, before long, the Canadian coins. These medallions would therefore not need to be stamped with a face value. but even if they were. I feel that the Treasury has no reason to fear that they would become legal tender in the foreseeable future.

I have four items which I would like inserted in the record because I believe that they embody the most important argument in favor of the gold medallion. These four items are advertisements for the Krugerrand. The language of these advertisements show that gold coins are investments. not money. for example: "Get 20 to hide away and one to show off.", "The hardest cash in the world. The Krugerrand.", "We believe the time to buy gold coins like the Krugerrand is now. The shrinking dollar, inflation and the high balance of payments all point to gold as a hedge against inflation." All of these advertisements ask you to buy Krugerrands to hang on to, not to use in lieu of more normal currency. But that just points up my earlier assertions. The important point that these advertisements bring up is that there is a market for gold coins in the United States. Expensive ads with toll free numbers are not taken out where there isn't a market—the American citizen wants to buy gold coins. It seems a shame that, when the American people want gold and the U.S. Treasury wants to sell it, we send the profits to South Africa.

[Exhibits accompanying Senator Hayakawa's statement follow:]

[Newspaper advertisement]

THE HARDEST CASH IN THE WORLD, THE KRUGERRAND

Many astute bankers say yes.

As a hedge against inflation, the Krugerrand is practically crisis-proof. And it is the most convenient form of gold to own.

Made from precisely one troy ounce of pure gold, you can count on it as your own personal hedge against virtually any type of paper money devaluation or inflation.

In a constantly changing world, buying the Krugerrand gold coins is one of the solidest acquisitions to be made. Naturally, the price of gold varies as economic factors change, but over the years, gold has remained the only true measure of monetary value.

Fill in the coupon and mail today. Remember, gold is the hardest cash known to man.

Get all the facts on silver coins, bullion, platinum and numismatic rare coins. Now.

[Newspaper advertisement]

THE KRUGERRAND MAY BE THE BEST WAY TO OWN GOLD

NOW HERE'S THE BEST WAY TO BUY IT:

Get 20 for the money and one for the show

12K gold filled mounting—FREE. With each lot of 20 Krugerrands you purchase from Munen, we'll give you the option to buy an additional Krugerrand at volume discount . . .

Normally only purchasable from Monex in lots of 20, you would have to pay considerably more for such a Krugerrand were you to buy it from a jeweler, bank or coin collector.

To become a paid owner now.

If you purchase the optional Krugerrand, it comes complete with 12K gold filled bezel mounting FREE, making your coin suitable for wearing as jewelery, displaying in a coin case or for gift giving.

Another advantage: When you buy South African Krugerrands from Monex, you're doing business with one of the world's largest investor oriented houses specializing in precious metals.

Now available on margin.

[Advertisement in Barron's Magazine]

1978 . . . GOLDEN OPPORTUNITY TO BUY GOLD?

IS 1978 THE YEAR TO BUY KRUGERRANDS? WILL THE PRICE OF GOLD CONTINUE TO RISE? IS GOLD THE IDEAL HEDGE AGAINST INFLATION?

We believe the time to buy gold coins like the Krugerrand is now. The shrinking dollar, inflation, and the high balance of payments all point to gold as a wise hedge against inflation * * * protection that could prove extremely sound if conditions continue as they are.

Find out how many methods there are to buy gold coins, such as the Krugerrand, and gold bullion to achieve this protection. Call * * *.

[Magazine Advertisement]

THE KRUGERRAND—GET 20 TO HIDE AWAY AND ONE TO SHOW OFF

Ordinarily we sell Krugerrands by the lot * * * 20 to a lot. Now for a limited time we'll give you the option to purchase an extra coin at volume discount instead of the costly single unit retail price. When you do, *you receive a valuable 12K gold filled bezel mounting FREE.* That gives you 20 to hide away and a "show" Krugerrand ideal for jewelry or display.

Now Monex International, the nations' largest investment house specializing in precious metals for the individual investor, makes the world's best way to own gold a great "buy," too. To take advantage of this limited time opportunity * * *.

The CHAIRMAN. Thank you very much, Mr. Hayakawa.

Our next witness we have scheduled to testify before we get into questions is Joel Solomon, Administrator of the General Services Administration. Go right ahead, sir.

STATEMENT OF JOEL W. SOLOMON, ADMINISTRATOR OF GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY ROY MARKON, ACTING COMMISSIONER, FEDERAL PROPERTY RESOURCES SERVICE

Mr. SOLOMON. Thank you, Mr. Chairman. I have a very short statement and I will read it.

The General Services Administration [GSA] is pleased to submit the following statement with respect to S. 2843, the Gold Medallion Act of 1978.

GSA defers to the Department of the Treasury with respect to the merits of the proposed legislation dealing with the production of gold medallions for sale to the general public. If S. 2843 is enacted into law, however, and the Department of the Treasury calls upon GSA to assume responsibilities for the marketing of the medallions, GSA will make every effort to establish and conduct a sales program to successfully carry out the purposes of the legislation.

GSA is the general sales agency for the Federal Government and has had experience in recent years in the sale of precious metals, including both gold bullion and silver, as well as in the marketing of the Carson City silver dollars. The knowledge and expertise we have gained through these disposal actions make us confident that we could conduct a gold medallion sale.

It may be of value to the committee if I related GSA's experiences in marketing the Carson City silver dollars. Under Public Law 91-607, the Bank Holding Company Act Amendments of 1970, Congress authorized GSA to sell nearly 3 million coins, most of which were uncirculated silver dollars from the long closed Carson, City, Nev., Mint. These coins, which were discovered in a Treasury vault in 1964, represented the last of the Government's holding of 90 percent silver dollars. The law required GSA to adhere to the sale plan approved by the Joint Commission on the Coinage, which is no longer in existence. The Commission's sales plan was a complex public mail bid system with a limit of one coin per person per category of coins.

Five sales were conducted between the years 1972-74. As a result of these five sales, 1,959,428 coins were sold generating net revenues of $55.3 million. Expenses incurred were approximately $8 million. Sales of the Carson City silver dollars were discontinued in 1974 because of the high costs involved in conducting them, and because of the then diminishing market returns from the sales of the 1883–84 coins—which constitute 64 percent of our remaining inventory.

I recently testified before the Subcommittee on Historic Preservation and Coinage, House Committee on Banking, Finance and Urban Affairs, on H.R. 9937 which would permit us to sell the remaining 1 million Carson City silver dollars. A copy of my statement at that hearing is attached to this testimony.

If that bill is enacted, we would be able to generate up to an estimated $24 million for the Treasury by selling the remaining coins. This sale would be much less complex. We have approximately $2 million left from our original appropriation for expenses, and we believe that this amount would be sufficient to permit us to conduct such a sale.

With regard to the gold medallions, GSA has been unable to research the marketing complexities which would be involved in any such sale. The development of an effective sales program nonetheless would require additional funding as well as an increase in staff. At this time it is not possible to specify these requirements since they would be dependent on the marketing plan to be developed. It is noted, however, that in the sale of the Carson City silver dollars conducted in the period 1972–74 the cost of selling each coin was approximately $4 plus postage.

Mr. Chairman, this concludes my prepared statement, I would be happy to answer any questions you or the other members of the committee might have.

[Mr. Solomon also submitted the following statement for the record:]

STATEMENT BY JAY SOLOMON, ADMINISTRATOR OF GENERAL SERVICES, BEFORE THE SUBCOMMITTEE ON HISTORIC PRESERVATION AND COINAGE, COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS, HOUSE OF REPRESENTATIVES, APRIL 3, 1978

Mr. Chairman and members of the Committee; I am Jay Solomon, Administrator of General Services.

Mr. Chairman, I wish to thank you for the opportunity to appear before this Subcommittee to discuss H.R. 9937, a bill to amend Section 205(a) of the Bank Holding Company Act Amendments of 1970.

This Bill, in slightly different form, is part of GSA's 1977 legislative program and has been approved by both the present and previous administrations. We support this proposed legislation. To explain the reasons for its necessity, I believe it appropriate to provide the Subcommittee with pertinent background information on GSA's holding of Carson City silver dollars along with the history of prior sales.

For only 13 years the Carson City Mint in Nevada produced silver dollars designed by Mr. George T. Morgan. Known as the Morgan Dollars, these coins all bear the unique "CC" mint mark. In the early 1900s, the demands for silver to support our war efforts in World War I resulted in massive coin melts. The stored Carson City Silver Dollars were thought to have been melted to meet these demands.

However, in 1964, when silver was no longer either used in coinage or for the redemption of silver certificates, the General Accounting Office made an audit of the Department of the Treasury's silver dollars and discovered in a treasury vault nearly three million coins, most which were uncirculated silver dollars from the long-closed Carson City Mint.

Under Public Law 91–607, the Bank Holding Company Act Amendments of 1970, Congress authorized GSA to sell these coins, which represent the last of the Government's holding of 90 percent silver dollars. That law requires GSA to adhere to the sale plan approved by the Joint Commission on the Coinage, which is no longer in existence. The Commission's plan had three main goals.

1. To insure the public a widespread opportunity to obtain the coins;
2. To obtain the maximum return on disposal for the Treasury; and

3. To conduct the disposal operation in Government rather than in private hands.

The Commission considered many proposals for selling the coins and decided on the following method: The silver dollars were to be sold by public mail bid with a pre-established minimum price set near their then-retail values. Coins were to be awarded beginning with the highest bid for each offering. If there were more coins than bids, all coins were to be awarded at the minimum bid price indicated and any amount over that price was to be refunded. Bidders were required to be United States citizens and at least 18 years of age. They were limited to one coin each per category. Coins were awarded on an "as is" off the shelf, sight unseen basis. To market these coins GSA received an appropriation of $10 million to cover sales expenses.

Five sales were conducted between the years 1972–1974. As a result of these five sales, 1,959,428 coins were sold generating net revenues of $55.3 million. Expenses incurred to date from the appropriations are approximately $8 million.

Sales were discontinued in 1974 because of the high costs involved in conducting them, and because of the diminishing market returns from the sales of the 1883–1884 coins—which constitute 64 percent of our remaining inventory. When these two series of coins were first offered we sold 525,124; the second time we sold 104,775; and the third and last time 58,669. We still have 623,852 of these 1883 and 1884 coins.

These declining sales data for these two categories were indicative of a temporary saturation of the market. Because of this saturation, the complex terms and conditions of sale, and the complicated and expensive sales method, the point was reached where it was and is no longer economically prudent to offer the remaining coins under the same terms and conditions.

As a matter of information, Mr. Chairman, in early 1976, GSA was advised by the Bureau of the Mint that it had become critical for the Carson City Silver Dollars to be relocated from the United States Bullion Depository at West Point, New York. The relocation was required because the Mint needed the vault space for other purposes. Alternative locations were explored and none found feasible except the U.S. Mint facility in Northern California where the coins are stored and safeguarded today.

Mr. Chairman, having given you and the Subcommittee some background and sales history, I will now discuss how we plan to sell the coins should the proposed legislation become law.

Six categories of coins remain in our inventory. In round figures, we have 4200 coins in the 1880 category, 19,000 coins in the 1881 category and 31,500 coins in the 1885 category. These coins were previously sold for a minimum bid of $60 each.

We have 195,000 coins in the 1883 category and 430,000 in the 1884 category, both of which were previously sold for a minimum bid of $30 each.

The remaining 300,000 coins are in the Mixed Years category, which consists of coins from all previously offered categories which do not meet the standards for uncirculated coins. The Mixed Years coins were previously sold for a minimum bid of $15. The prices for all of these categories of coins included the cost of postage.

GSA personnel who conducted the previous five sales believe that simplicity must be the principal criterion in developing new sales terms and conditions for any future sales to the public. Their experience from the previous sales shows that public response is inhibited when a sales offering contains restrictions, complex award procedures, delays in delivery, and complex pricing instructions.

In addition, it is significant for me to emphasize that we believe that GSA has already amply provided for every American to have an equal opportunity to purchase one or more of these historic coins. Therefore, I propose the following marketing guidelines.

1. The coins will be offered for sale in the United States, its territories and possessions, and to members of the armed forces, and embassies and consulates overseas.

2. All coins will be sold at fixed prices which shall be the previous minimum bid prices, unless the then market conditions dictate otherwise.

3. There will be no limitation as to quantity on the 1883 and 1884 coins. There would be a limit of up to 100 coins per person in the 1880, 1881 and 1885 categories.

4. Orders will be received for a specified period during which they will be processed on a first come, first served basis until all coin category inventories have been depleted.

5. Payments in full must accompany all orders.

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These guidelines are, of course, subject to revision, and H.R. 9937 is drafted to provide the flexibility to allow various methods of sale in order to respond to changing market conditions.

It is also our intention to use the flexibility provided in this bill to offer some of these Carson City silver dollars through negotiated sale to Federal organizations such as the Smithsonian Institution, and to State and local museums for public display. Such negotiated sales would be consistent with the procedure through which other Government-owned property is disposed of and the public interest would be served by providing that some of these historic coins are available for the benefit and enjoyment of all.

Of obvious consideration in the matter of our marketing strategy is the sensitive subject of what prices we assign to each of the six groups of remaining coins. We propose to use not less than the previous minimum bid prices as the fixed prices for the next sale.

Current pricing trends indicate that the market will support the proposed $30 price for 1883 and 1884 CC's, $60 for the 1880, 1881 and 1885 coins, and $15 for the Mixed Years category. Although the price of 1883 and 1884 Carson City silver dollars on the open market is now lower than it was before we began our initial sale in 1972, and the price of 1880, 1881 and 1885 CC's is higher, we believe that it is most desirable to adhere to the previously established prices, so long as they are not seriously out of line with the current market. Since market conditions fluctuate we will make a final determination on this matter just before the next sale.

Mr. Chairman, I also wish to advise you and your colleagues that the coins are packaged in boxes which bear a message from former President Richard Nixon. This message reads as follows: "As we approach America's Bicentennial, this historic silver dollar is one of the most valued reminders of our national heritage." While the message is outdated, the cost of repackaging or altering the present packaging, possibly to include a message from President Carter, would be expensive. In view of only $2 million remaining to sell about 1 million coins, the President has decided that we cannot afford the luxury of repackaging the coins.

In conclusion, we believe that H.R. 9937 which would amend section 205(a) of the Bank Holding Company Act Amendments of 1970 will, if enacted into law, provide GSA with the flexibility it needs to sell the remainder of Carson City Silver Dollars.

Taking into account the planning, various automated data programming and other administrative requirements, we believe we could commence a sale within approximately 9 months from the time that the present act is amended.

This completes my prepared statement, Mr. Chairman. My staff and I will be glad to answer any questions which you may now have.

The CHAIRMAN. Thank you very much, Mr. Solomon.

Mr. Goldman, you have a statement. I take it we can have that printed in full in the record without having it delievered.

Mr. GOLDMAN. That's fine

The CHAIRMAN. We're happy to have it. You're Assistant Director of the U.S. Mint and you are here to explain the technical questions with respect to that. We are very happy to have all of you.

[Mr. Goldman's statement follows:]

STATEMENT BY DR. ALAN J. GOLDMAN, ASSISTANT DIRECTOR OF THE MINT FOR TECHNOLOGY

On behalf of the Director of the Mint, I want to express my appreciation for the opportunity to testify on S. 2843, which would provide for the issuance of the one ounce and one-half ounce gold medallions by the Treasury Department. My testimony, Mr. Chairman, will focus on the production and technical considerations raised by the proposal.

S. 2843 provides that, whenever the Secretary determines to sell gold, all or part of the gold offered for sale shall be in the form of one ounce and one-half ounce medallions. If less than 1.5 million ounces of gold is to be sold during the first fiscal year after enactment, the bill would require that the entire amount be sold in the form of medallions. If the Secretary determines that more than 1.5

million ounces of gold is to be sold during the first fiscal year after enactment, the excess of gold over 1.5 million ounces may be sold in such manner as the Secretary deems appropriate.

The bill directs that the medallions be produced from .900 fine gold and that they contain, respectively, one ounce and a half-ounce of .999 fine gold. In the first year of production, the medallions would have to be struck in the ratio of two half-ounce medals for each one ounce medal; meaning, that the Mint would have to strike 2.25 million medals. Subsequently, the ratio of production would be left to the Secretary. The bill would also authorize the Secretary to adjust the production quantities to reflect anticipated market demand after the first year.

The medallions would bear various statutory design elements and inscriptions, including the Great Seal of the United States, the words "United States of America", and would be inscribed with the year of production. While no monetary value would appear on the medallions, they would bear the legends, respectively, "one ounce fine gold" and "one-half ounce fine gold".

We should point out that the Mint has never undertaken a program involving the production of 2.25 million gold medals a year. Tre recent Bicentennial gold medal program certainly represents no precedent. In contrast to the 2.25 million medallions, the entire Bicentennial program involved the production of less than 40,000 gold medals by the Mint. Nevertheless, if so directed, the Mint would have the production capability of manufacturing 2.25 million gold medallions per year. To do so would, however, require additional equipment, adequate lead time, an increase in Mint personnel ceiling and the necessary funding by the Congress.

In order for the Mint to manufacture 2.25 million gold medallions a year, it would be necessary to procure and install a variety of additional equipment such as blank inspection tables and coin conveyor belts costing approximately $100,000. It would also be required to modify and rearrange the manufacturing area at the West Point Bullion Depository and Philadelphia Mint, where the gold medallions could be produced. The cost of capital investment, together with the modification expenditures, are estimated to total $250,000.

The production of the medallions would also necessitate the hiring of an additional 50 employees, including security personnel, for the duration of the program. Taking into account the additional manpower requirement, capital costs, as well as the procurement of fabricated gold medal blanks, the cost of each medallion is estimated at $2. By far the largest element in this cost would be the fabrication of medal blanks by private industry—approximately $1.30 per blank. It should be pointed out that this cost figure assumes that the Mint would supply fine gold to the commercial fabricators rather than .900 fine coin gold. Supplying the latter would require an additional refining charge of approximately 50¢ per blank.

For the premium quality medallions, the manufacturing and packaging cost is estimated at $5 for each medallion. In addition, depending on the method of marketing, there could be additional promotional, mailing and shipping costs involved. The Mint collector list could be used to market the premium quality medallions. The mailing would cost $500,000. If the medallions were shipped by registered mail to the purchaser, the registry and postal charges would cost $3 to $4 for each medallion at today's postal rates. The sales price would thus have to include the production and other costs in addition to the bullion value of the medallions.

While the Mint has general statutory authority to reimburse its appropriations for the manufacturing and marketing expenses from medal sales proceeds, without additional funding by Congress the Mint would not be able to begin this program. Using the lowest estimated unit cost of production for the medallions, it could cost the Mint approximately $1 million to start up the program. This would cover the necessary capital and personnel expenditures and fabrication costs for an initial quantity of 500,000 blanks.

Assuming that the 500,000 medallions would be sold, the Mint could reimburse its appropriations from the proceeds of the sales and could thus continue producing the medallions. It should be emphasized, however, that if the sales fail to materialize, the medallion manufacturing costs would be borne entirely by the Mint and thus appropriations of approximately $5 million would have to be made by the Congress for the production of 2.25 million medallions.

This completes my prepared statement, Mr. Chairman. I will be pleased to answer any questions which you or any other members of the Committee may have.

The CHAIRMAN. Mr. Solomon, how much does it cost to store and provide security for the gold stockpile you have now?

Mr. SOLOMON. Treasury does that.

The CHAIRMAN. Treasury is responsible for the gold stockpile, the storage and the security?

Mr. SOLOMON. Yes, sir. GSA has been conducting the sales of gold bullion which have been taking place, and we will be conducting additional sales in the future.

The CHAIRMAN. You sell it but they store it?

Mr. SOLOMON. Yes. They tell me we have only expended about $100,000 up to now for these gold bullion sales.

The CHAIRMAN. Can you tell me, Mr. Bergsten, what the cost of storage and security is?

Mr. BERGSTEN. Mr. Goldman gives me an estimate of about $1.5 million a year.

Mr. GOLDMAN. This is for security personnel at Fort Knox and the U.S. Assay Office.

The CHAIRMAN. Could you submit the details of that for us for the record?

[The Department submitted the following information:]

Question. What is the annual cost to store and provide security for the gold held in custody by the Mint?

Answer. The annual cost of storing and providing security for the Government's holdings of 266 million fine troy ounces of gold held in the Mint's custody is approximately $1.2 million. A breakdown is provided below:

Office	Average positions	Labor	Overhead	Total
Fort Knox	31	$394,000	$137,000	$531,000
New York Assay Office	33	420,000	147,000	567,000
Denver	3	38,000	13,000	51,000
San Francisco Assay Office	3	38,000	13,000	51,000
Total	70	890,000	310,000	1,200,000

The CHAIRMAN. Mr. Solomon, how do you propose to sell the medallion so as to cut into Krugerrand sales, and give the little guy a fair chance, as Senator Helms and the supporting Senators have indicated he should have, to purchase medallions and also to maximize the profits to the U.S. Government?

Mr. SOLOMON. Mr. Chairman, we have not developed a marketing program, as I indicated in my testimony. Our best guess is, if we tried to do it on the basis of individual sales, like we did the Carson City silver dollars, it would be fairly expensive. We indicated it cost us $4 plus postage to sell each silver dollar. However, we have to send the coins out as registered mail, which is very expensive.

We do not have a marketing plan yet, nor have we estimated the cost of selling gold medallions.

The CHAIRMAN. When do you expect to have one? It's pretty hard for us to act on this without having some notion. We certainly ought to have before us the details of the cost of such a plan and so forth.

Mr. SOLOMON. I think somebody would have to give us a legislative proposal as to what you would expect us to do; we could then come up with a program on that basis. We could make some assumptions if you would like us to.

The CHAIRMAN. I hope you do that because we would like to be able to act on this with the fullest possible knowledge.

Mr. SOLOMON. And you would assume that we would try to get it out on individual sales, only one to a person?

The CHAIRMAN. No, I don't think that's it. People could buy as few or as many as they wish. There would be no notion of limiting the sale.

Mr. SOLOMON. There's a big difference, as Senator Helms indicated, between one bank buying the whole thing or making a whole slew of individual sales.

The CHAIRMAN. That's right. Have you examined the possibility of selling the medallions through monthly or bi-monthly dutch auctions. What problems would you anticipate in such auctions and how much would such auctions cost?

Mr. SOLOMON. We will make those assumptions.

The CHAIRMAN. Now I come to one other point with respect to you, Mr. Solomon. I can't resist it. I think you may have read this morning's newspapers. You see that on the front page? "GSA Purchasing Practice: No Bidding, Higher Prices"—appalling examples here. We have a model calculator here, $56.75. At Bell discount store I could walk in and buy it for $56.75. GSA paid $63.20 for it. There's a camera at Bell you can buy it for $219.50. The same camera, GSA pays $246.14. A pocket calculator which Bell sells at $9.90, less than $10, GSA pays $12.26 and so on. Incidentally, there's a Sony TV set that Bell sells for $487.50; GSA pays $496 for it.

I would think GSA would be able to buy in quantity and would be in a position where they would pay less than an individual purchaser would pay in a discount store. Obviously, Bell has to have a markup on it. They're not in business to give money away. And under the circumstances, it would seem to me that GSA should be able to give us a better accounting, and if you're going to market these medallions I hope you can have a better record on that than you have had here in paying for these calculators and so forth.

Mr. SOLOMON. Well, fortunately, in the sale of medallions we don't go out and buy them. They are given to us by the Treasury so we don't have to worry about a competitive price standard. But I'm sure, Mr. Chairman, you realize—and if you don't—I do not stand up for all the practices of GSA, for those things they are doing now or which have been done in the past. I have not had a chance to investigate the items that appear in the paper, but I'm also sure that you're aware that a discount store—I'm not talking now about hand calculators, as hand calculators are an item that has been going down in price very quickly—that there are many discount stores that will go to a manufacturer and probably pay the same price that GSA does and sell them as "loss leader" items. I cannot account for the specific prices quoted in the newspaper. At this time I cannot and will not try to explain them.

The CHAIRMAN. The reporter, Ronald Kessler, and the Bell people said GSA is probably very uninformed about prices. Here's a catalog and I suggest you take this catalog and maybe go to Bell and do a better job.

Incidentally, I haven't bought any Bell stock, but I think that if GSA would just stand in line there and buy their equipment at Bell you'd do a lot better.

Mr. SOLOMON. Mr. Chairman, one thing the catalog does not show, you know the General Services Administration buys almost 4 million items and I'm sure that any purchasing agent or anybody who buys that many items, including any department store—there are other department stores that may buy a few of them cheaper than they do—will tell you that it's the total picture that really counts rather than individual items. I do not sanction that. I don't know whether our methods are the best. I don't know whether they are correct. I don't know the whole pricing picture on individual items. That's a pretty tough area to get into, but we will have some answers I'm sure when we go before the oversight committee on September 18.

The CHAIRMAN. The bottom line here is there's no bidding, not competitive bidding.

Mr. SOLOMON. That's not a fair statement, sir.

The CHAIRMAN. Well, of course, they say manufacturers in America do not want to compete on the basis of price, and nobody does. I wouldn't if I was a manufacturer, but if you're required to do it—and you are required by law——

Mr. SOLOMON. That's not a fair statement because we have competitive bidding going on in the Federal Supply Service every day. There was a bid yesterday on furniture that was done under competitive bidding, sealed bidding, deadlined and opened in front of a lot of people. I do not believe that the overall statement is really fair.

[The newspaper article referred to follows:]

[From the Washington Post, August 25, 1978]

GSA PURCHASING PRACTICE: NO BIDDING, HIGHER PRICES

(By Ronald Kessler)

Although it buys in much larger volume, the U.S. government pays higher prices for typewriters, electronic calculators, cameras and other equipment than state governments or customers of discount stores pay, according to an investigation by The Washington Post.

The General Services Administration, which provides federal workers with office space and supplies, spends $1.5 billion each year to buy nearly four million different kinds of office equipment and other supplies. Instead of obtaining sealed, competitive bids and buying from the lowest bidders, GSA often negotiates discount prices from supply firms who buy the products from the manufacturers and resell them to the government.

GSA officials have said the prices they pay under this system are as low as possible and save the taxpayers substantial sums of money. But the Post has found numerous products that GSA has brought in large quantities at prices higher than those charged state governments or discount store customers.

GSA pays $612 for a Royal single element typewriter with 16-inch carriage (Model No. 970), for which the state of Maryland, using sealed, competitive bidding procedures, pays only $541.94.

GSA pays $228.65 for an Olivetti printing calculator (Model No. L43-PD) that costs the state of Virginia, using sealed, competitive bids, only $149.

GSA pay $56.50 for a General Electric minature cassette tape recorder (Model No. 3-5313) that sells for $46.90 at Reliable Homes Appliances, a discount retailer with six stores throughout the Washington area.

GSA pays $16.36 for a Canon eight-digit calculator (Model No. Palmtronic 8MS) that costs $14.93 at Best Products Co. Inc., a catalogue sales store with four outlets in suburban Virginia and Maryland.

GSA pays $627 for an Olivetti electric typewriter with 13-inch carriage (Model No. 90C) that costs the state of North Carolina, using sealed competitive bids, $520.

GSA pays $622.06 for a 21-inch Sony color television set (Model No. KV-2101) that can be bought for $597.75 at W. Bell & Co., a discount catelogue sales store with outlets in Washington, Rockville, Falls Church, Lanham, Baltimore, Atlanta and Houston.

The price paid by GSA for nearly every brand-name item checked by The Post was up to 33 percent more than prices paid for the same products by state governments or discount catalogue store customers. It is impossible, however, to determine just how much money is being wasted because GSA does not keep central records on total numbers of each brand-name item purchased.

Overall, GSA last year paid $40.8 million for electric typewriters, $31.5 million for electronic calculators, $82.6 million for photographic equipment and $3.2 million for television sets.

GSA officials have not disputed The Post's findings. However, Fredrick B. Bunke, who until recently was GSA's assistant commissioner in charge of procurement in its federal supply service, said the prices do not tell the whole story.

Bunke said GSA may receive better warranties than those that normally come with products. But The Post's investigation found the warranties on items that GSA paid higher prices for were the same as warranties that usually are provided.

Bunke also said federal laws do not give GSA the flexibility that permits state governments to buy brand-name merchandise using competitive bids. "Ask the General Accounting Office," he said.

But Jerome H. Stolarow, director of the procurement and acquisition division of GAO, the audit arm of Congress, said "That's not true * * * I know of nothing in the law that would prevent GSA from going out and buying IBM, Royal, and Olivetti typewriters using "competitive, sealed bids."

He said manufacturers have applied pressure on GAO to try to alter this interpretation.

GSA's training manual for employees instructs them to pay no more for supplies than the discount prices their suppliers charge other large volume customers. However, most of the firms that sell supplies to GSA have few if any other large customers and are in business primarily to sell merchandise to GSA, according to one manufacturer's representative who deals with GSA.

"The first thing you do when you want to sell to GSA is to set up a company that will only sell to GSA," said the maunfacturer's representative, who asked not to be identified for fear of losing his clients. "That way, you can tell GSA you don't give anyone else a better discount, and you're telling the truth."

Other suppliers, who do have other customers besides GSA, still do not always charge GSA the lowest price. According to a 1977 GAO report, five of 12 suppliers, examined by GAO failed to tell GSA about better discounts they offered customers.

If GSA had received these discounts, the GAO said GSA would have saved $1.2 million in purchasing $11.2 million in goods from the five companies.

One supply firm that sells almost exclusively to GSA is Government Services Inc., a Rockville company with a suite of offices on the first floor of an office building at 701 East Gude Dr. Government Market Services is GSA's major supplier of Texas Instruments calculators and also provides the agency with cassette tape recorders, dictating machines and photographic products.

Sidney Freed, the owner of Government Marketing Services, suggested his company may charge the government higher prices because it has to ship products to each federal agency that orders them. Although he would not make available his company's financial statements, Freed said it made a profit, after taxes, of only 0.7 per cent last year.

GSA pays Government Market $1,404.25 for a Panasonic video cassette record (Model No. PV-1000) that costs only $780 at a Reliable Home Appliance Store and is available for $895 at Chafitz Electronic Specialty Center in Rockville.

The state of North Carolina pays $66.95 for a Texas Instruments calculator (Model No. TI–5050M) that GSA buys for $89.05 from Government Marketing Services. The same calculator sells for $74.50 at W. Bell here.

A Minolta, 35-millimeter, single lens reflex camera with an f/1.7 lens (Model No. SR–T 201), which costs $219.50 at W. Bell, costs GSA $246.14 from Government Marketing Services.

Asked about these price differences, Lawrence E. Fisher, the GSA official in charge of buying office products from Government Marketing Services, said, "If you deal with Bell or other catalogue showrooms, you drive over there, you pick it up; if it doesn't work, you don't go back there to get it fixed."

Fisher's aide, Larry Rothgery, who is responsible for buying calculators said, "That's standard, for catalogue prices to be lower [than GSA prices].

"You have to pay cash [at catalogue outlets], or if you call in, they'll ask for a credit card number." He said catalog stores may offer lower prices on some items to draw customers.

Walter Bell, president of the W. Bell firm, a publicly-traded company based in Rockville, said Bell maintains low prices by buying directly from manufacturers, keeping overhead low, and being knowledgeable about prices. Defective merchandise is replaced by W. Bell within 10 days of purchase, according to Bell. He said Bell allows customers to use cash, checks, credit cards or a Bell charge account.

"GSA is probably very uninformed about pricing," Bell said.

Under GSA's system, any established company may supply products so long as they offer what GSA considers a suitable discount. Federal agencies may then choose among a number of brands for each item.

For example, they can choose among Olivetti, IBM, Royal, or other electric typewriters. The choice is delegated to hundreds of department heads within each agency. They are supposed to select the lowest-priced brand that fits their employees' needs.

However, R. L. Donnelly, who sells $10 million in furniture to GSA each year as a manufacturer's representative, said, "A lot of agencies are kind to themselves and buy large quantities of products at high prices." He said federal department heads generally select products based on a salesman's pitch or the attractiveness of photographs, because they are not trained professionally to evaluate products.

By contrast, state governments generally are obligated by law to pick the brand offering the lowest bid price, so long as certain standards are met.

"No city or state could get away with the GSA multiple-award system," said Donnelly, who sells to GSA both through the multiple-award system and through competitive bidding procedures. "They'd be thrown out of office. There are no safeguards on prices."

State purchasing officials interviewed by The Post said that GSA's buying methods keep prices high for all customers.

"Vendors often will not give us a better price because they fear that when they disclose the lower price to GSA, GSA will drop them, or they will have to reduce their price to GSA," said Robin J. Zee, Maryland's chief purchasing official.

"This system keeps prices up for everyone," said Willis Holding, Jr., North Carolina's chief purchasing official.

GSA officials say they cannot buy brand-name products using competitive bids, as the states do, because it would be impossible to adequately describe what is wanted in written specifications. It thereby takes advantage of an exemption in federal law that otherwise requires competitive bidding.

State governments routinely write such specifications. However, these specifications—call performance specifications—describe what a product should do rather than how it is made.

When GSA seeks competitive bids in our purchasing programs, it describes how products should be made, often with disastrous results. A manufacturer responding to such a specification must make a special product just for GSA, which adds to its cost.

A July 3 Washington Post story described how one firm, Art Metal Inc., provides GSA with metal desks and filing cabinets with finishes and tops that peel off and drawers and locks that do not work.

When GSA proposed last year to switch from multiple-award to competitive bidding purchases of overhead projectors, more than 80 members of Congress wrote to protest or question the move after they had received complaints from the projector industry. The industry representatives protested that GSA's proposed specifications would not bring in brand-name products. They claimed GSA already receives the best prices through the present multiple-award system.

"They are getting the best discounts available," Kenton Pattie, vice president of the National Audio-Visual Association Inc., wrote to GSA.

Yet, GSA now pays $179.58 for a 3M Co. overhead projector (Model No. 213 Classroom BAA) that costs the state of North Carolina only $145 through competitive bidding procedures.

"Most manufacturers in America do not want to compete on the basis of price," Donnelly, the manufacturer's representative, said. "They want to compete on how well they dance or whistle."

The CHAIRMAN. Now, Mr. Bergsten, to get back on track a little bit, if gold has no role as a monetary reserve, why doesn't the Treasury sell off the gold stockpile over the next few years to anybody who wants to buy at the best price it can get?

Mr. BERGSTEN. Well, I think there are really two reasons, Mr. Chairman, why we think it's necessary to retain flexibility in selling gold. One is simply the huge size of our current stock. We now have something like 277 million ounces. That is a very high multiple of annual production or demand or net imports or anything else you might want to choose, and any indication that we were going to sell all of that at any rapid period of time could have a disruptive effect on gold markets.

The CHAIRMAN. I said over the next few years. I realize if we went into the market tomorrow and said we would sell everything, obviously the price of gold would go through the floor. I'm not suggesting that.

Mr. BERGSTEN. Well, I think it is also important to take into account concerns of other countries, for example, some of whom would be unhappy to see us announce we are going to sell all our gold.

The CHAIRMAN. Like the Soviet Union and South Africa?

Mr. BERGSTEN. No. I was thinking of other countries that we work with in the IMF. The international agreements that have been reached on demonetization of gold have very explicitly envisioned gradual phasing out over time. What you say may happen but I think it's essential for us to maintain flexibility in the pace at which we do sell the U.S. gold stock.

The CHAIRMAN. The Treasury press release on Tuesday indicated that monthly gold sales would now be roughly equivalent to the 1977 rate of net gold imports. That's a quotation. Is it Treasury's intention to adjust gold sales to roughly balance imports and exports of all forms of gold?

Mr. BERGSTEN. That's one important factor we take into account now. I wouldn't say it's the only one. It depends on the state of our own balance of trade, and the contribution which gold sales can make to reducing the trade deficit. It's one important factor, but I wouldn't say it's the only one that would guide our policy in the future.

The CHAIRMAN. Is it true that the gold bars now being auctioned off by Treasury are composed largely of melted-down gold coins recalled from the U.S. citizens in the 1930's?

Mr. BERGSTEN. No. In fact, none of the bars we are selling now come from that source. The gold being sold is a very high degree of fineness. It's industrial quality. That's one reason it has sold effectively. The gold that was taken in in the 1930's was melted into a lower quality of bar, all of which is still part of the stock.

The CHAIRMAN. Has Treasury considered selling some of the gold in 1-ounce bars as so-called wafers?

Mr. BERGSTEN. Well, we don't have any 1-ounce bars or wafers. Sales of small bars or wafers would require us to go through the minting and distribution costs.

The CHAIRMAN. I know you don't have them available, but you could easily produce them, couldn't you? The wafer would be cheaper to produce than medallions and it would satisfy some of the demand to hold gold bullion, give the person of modest means the opportunity to purchase Treasury gold. It would achieve some of the objectives that Senator Helms has argued for.

Mr. BERGSTEN. I come back to the points we made before. We don't see any budgetary or balance-of-payments gain from selling in that form and we do believe that American citizens have plenty of opportunity now to buy small coins.

The CHAIRMAN. Yes; but I think they've got a good point. When you go out—every opportunity you have is to buy from a foreign country or with a foreign country insignia on it. If you're an American who believes in buying American, recognizing we have a problem with our balance of payments and so forth, it would seem to me that it might be more satisfactory to many Americans if they could buy our own gold. That's what Senator Helms is really trying to do.

Mr. BERGSTEN. I think, Mr. Chairman, this gets back to the point you and he were discussing before. Would this increase the demand for gold and, if so, would that be a desirable thing? We would not think so, if it had that effect. If it did not have that effect and if it was merely substitution of one type of gold for another, as I indicated our analysis suggest, there would be no gain and perhaps a loss.

The CHAIRMAN. But a little fellow, a person of modest means cannot do it. A sophisticated, well-to-do person can afford to buy very large amounts, but the little person can't do it, and if you had these wafers he could. And all Senators have argued that it's a legitimate hedge against inflation. Frankly, I don't think it's a very good hedge, but a lot of people disagree with that, and it's a free country. It's fairly free.

Mr. BERGSTEN. Well, Mr. Chairman, a 1-ounce wafer would cost somewhere over what an ounce of gold would cost, which is well over $200. If that's what the little fellow wants to buy he can buy it now in other forms. That's our only point. We don't see any way this could be done to provide either a budgetary or balance-of-payments gain to the United States from doing the marketing itself. That's the pragmatic point that we're simply making in response to the proposal.

The CHAIRMAN. Why doesn't the U.S. Government classify the Krugerrand as a coin for customs purposes? If it were classified as a medallion it would cost duty and would discourage sales, wouldn't it?

Mr. BERGSTEN. The reason is, it is defined by the issuing government as a coin. We have respected that in our tariff classification as does practically every other country in the world in their tariff classification. We have looked at that and seen what other countries do and they follow that same practice. It's a simple matter of accepting at face value what the producer says his product is.

The CHAIRMAN. One more question. Would the gold objects which would be created if S. 2843 were adopted be coins or medallions for tariff and tax purposes here and abroad?

Mr. BERGSTEN. I think they would be considered medallions. There's no face value and they would not be legal tender.

The CHAIRMAN. That's for both tariff and tax purposes?

Mr. BERGSTEN. I believe that's right.

The CHAIRMAN. The Krugerrand has no face value, as I understand it. It just states the weight in gold, right?

Mr. GOLDMAN. One can turn in Krugerrands, although this is academic. Nobody does. One can exchange it, though, for rands.

Senator HELMS. It has no face value.

The CHAIRMAN. Any questions you would like to ask, Senator Helms?

Senator HELMS. No. I have no questions and I don't know that it would be fair for me to question.

The CHAIRMAN. Of course it would. We are delighted to have you do that. Go right ahead.

Senator HELMS. I do want to thank Mr. Solomon for his initiative and I'm not quite clear that the Chair suggested that he come up with a marketing plan. I hope that he will.

Mr. SOLOMON. Yes, sir.

The CHAIRMAN. Yes, I'd like to do that. I think we ought to have all that before us.

Senator HELMS. I think that's essential and I'm glad you mentioned it.

Mr. SOLOMON. We will make certain assumptions.

The CHAIRMAN. We need to understand how adequate the marketing plan is and so forth.

Mr. SOLOMON. We will make certain assumptions.

Senator HELMS. Do you have a time frame in which this might be available?

Mr. SOLOMON. Yes.

Senator HELMS. How long would it require to have such a plan available?

Mr. SOLOMON. We'll do it before the record closes, about 30 days.

Senator HELMS. Thank you.

[The following material was subsequently submitted for the record.]

General Services Administration
Office of the Administrator
Washington, DC 20405

October 6, 1978

Honorable William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

During the recent hearings on the Gold Medallion Act of 1978, you requested that the General Services Administration prepare some possible marketing plans with cost estimates for the sale of gold medallions. Those plans and cost estimates are enclosed.

Sincerely,

Paul E. Goulding

PAUL E. GOULDING
Deputy Administrator

Enclosure

Gold Medallion Marketing Plan

In response to a request from the Senate Banking, Housing and Urban Affairs Committee, the General Services Administration (GSA) has prepared marketing plans with cost estimates for the sale of gold medallions proposed in the Gold Medallion Act of 1978 (S. 2843).

We believe the proposed legislation has three principal objectives which should be achieved in any marketing plans in various degrees. The first objective is to reduce the sales of foreign gold coins which are currently being imported and sold in the United States. The second would be to give the average American citizen a better opportunity to purchase small amounts of American produced gold. The third objective would be to maximize a return to the Government.

The Republic of South Africa's Krugerrand is an example of a foreign coin sold in this country. This coin, which contains one troy ounce of .91666 fine gold, is struck by the Republic of South Africa under an agreement with the Chamber of Mines which is a consortium of private gold mining companies in South Africa. Institutional buyers purchase Krugerrands at the point of manufacture. There is no maximum or minimum purchase limitation. Price is pegged at day-of-purchase market value of gold, plus a 3 percent surcharge imposed by the Chamber of Mines in South Africa. The purchaser is responsible for packaging and shipment of the coins back to the United States. Persons who wish to purchase Krugerrands contact their banks or dealers in local areas and order them at that day's (day-of-order) market price. These orders constitute a verbal contract at the point of order. If the banks or dealers at which the coins were ordered do not have any Krugerrands, they are ordered from banks or dealers which do possess the gold coins. The coins are always purchased at the daily gold market price, with a range in surcharge of 3-5 percent, in addition, to the 3 percent surcharge already imposed in South Africa.

In the Washington metropolitan area there are outlets where an interested buyer may purchase Krugerrands and/or one ounce ingots of gold. In several of these outlets at a given minute on September 8, 1978, when gold was selling at $208 a troy ounce both gold ingots (1 troy ounce) and Krugerrands could have been purchased at $231.50 including the 5 percent D. C. sales tax. Prices in areas outside the District of Columbia may vary depending upon state and local taxes.

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In numismatic publications various offerings are made to the public to purchase .900 or more fine gold ingots, bars, coins, and jewelry. One such publication, Coin World (September 13, 1978, edition) contains 22 pages of advertisements for the sale of gold objects.

For the sales methods and projected costs in selling the gold medallions, the following assumptions were made.

1. All Government costs are to be recovered from a prorated surcharge in the sale of the medallions.

2. The U.S. Department of the Treasury and Board of Governors of the Federal Reserve System would provide secure storage space for the gold medallions.

3. The Department of the Treasury, Bureau of the Mint, would bear all costs of minting the gold medallions prior to delivery to GSA at the Philadelphia Mint (estimated by Treasury to be $2 per medallion).

4. All medallions produced would be sold.

I

The first proposed method of sale would be the "Dutch" auction or competitive bid method. This method would ask bidders to submit bids at or above the gold market price. The gold market price would be set at an announced specific time and date following the submission of all bids. Bids would be received for a 30-60 day period. An advertising program would give the broadest practical notification to prospective buyers for the sale of the medallions. The advertising would be directed to notification of availability and not an encouragement to purchase gold.

Interested persons would submit a bid on a medallion (or several medallions) by mail. The bids would be received by GSA up to an hour prior to the time of establishing price. Bidding would be closed and all bids opened. All bidders at or above the established price would be awarded medallions as the supply lasts, on a high bid basis with no refunds. All bids below the set market price, would be rejected. A bid deposit of 20 percent of the total bid would be required as a pledge of good faith. Bid deposits would be returned to unsuccessful bidders. Successful bidders would have their bid deposit applied to the final purchase price. The final purchase price of each medallion would be the bid plus a fixed surcharge of approximately $11.66.

The auction would be conducted and the medallions would be packaged and mailed to successful bidders from central locations.

This sales plan presents a number of serious problems. Bidders who are purchasing medallions for their material content would be forced to speculate, at the time they submit their bids, what the market price of gold would be at the time the cut-off price is determined. Such uncertainty could cause potential bidders to buy Krugerrands which could be purchased at the day-of-purchase market value of gold.

Although an advantage of an "auction" sale is that proceeds generally increase if bidders are willing to pay more for a medallion than the value of its material content, the pricing method in this sales plan would tend to discourage high bids. Medallions would be awarded to bidders at or above the market price of gold. By establishing the cut-off price for acceptance of bids at the market price, but making awards at whatever prices are submitted at or above that price, bidders would be encouraged to bid as closely as possible to the anticipated market price.

A large number of late bids could be expected with this method of sale. Since the cut-off price would be established one hour after the time for the receipt of bids, bidders would be encouraged to wait until the very last minute to submit their bids. Late bids would result in a large number of lost sales.

This sales method involves at least a 10-step procedure: announcement of sale, solicitation of bids, submission of bids and bid deposits, establishing the cut-off price, abstracting bids, issuing notice of awards and requests for full payment, return of unsuccessful bid deposits, submission of full payment by bidders, production of medallions, and finally, delivery. This procedure would be expensive and difficult for bidders to understand. There would also be a time lag between payments and delivery. The time lag could force bidders to tie up possibly large sums of money for long periods of time and generate other problems, such as, complaints about late delivery.

It is important to note that there are other variations of this method of sale, including one known as the "common price" auction. There is one primary difference between the two methods of sale: in the auction method described above, a medallion would be awarded to a bidder at the price bid; in a common price auction, a single award price would be established on the basis of the bids received and medallions would be awarded to all successful bidders at that price. Although the common price auction would encourage submission of higher bids, it is subject to the other disadvantages which relate to this method of sale.

II

The second method of sale would be preestablished or "fixed" price. The price of the medallions would be set at the open market price of gold on a specific date and time prior to the sale. All medallions would be sold at that set price plus a fixed surcharge of approximately $11.58 based on cost of sale (Appendix II). Orders would be received over a period of time. Full certified payment with each order would be required. The medallions would be distributed in the same manner as described in the first method of sale.

This sales method would be easier for individuals to understand and would eliminate time consuming abstraction of bids to determine the high and low bidders.

The principal disadvantage of a fixed-price sale is that its success is dependent on the actions of the gold market during the period between the time the price of the medallions is set and the time that orders are opened. If the market price of gold rises after the price is established, the Government would have to sell gold below the market price and lose potential proceeds. On the other hand, if the market price of gold drops after the price of medallions was established, there would be little incentive to bid on the medallions and the Government would receive few orders.

As with the first method of sale, the time lag between payment and delivery and the high costs of mailing would present serious problems.

III

The third sales method would be "over-the-counter" sale through local banks on a consignment basis. Under this method, an advertising program would be conducted to obtain the broadest practical coverage of notification to prospective buyers for the sale of the medallions. The medallions could be produced at the Philadelphia Mint and shipped to Federal Reserve Banks upon their request. Individual buyers would be able to go to their local banks and order any number of medallions at the current day's gold market price plus a surcharge of approximately $4.41 to cover the Government's manufacturing and distribution costs (Appendix III). Banks receiving requests from customers would then order the medallions from their local Federal Reserve Banks as they currently do with national coinage. Banks would be allowed to add a small prescribed surcharge to cover their costs. In addition, banks wanting to maintain an inventory of medallions, could order them in advance from a Federal Reserve Bank. Medallions would always be sold to individuals or dealers at the current day's market price for gold.

This method affords broad market coverage and adequate return by pegging the price directly to the market price of gold. It minimizes Government involvement and costs by utilizing existing financial systems. Also, it insures prompt delivery of the medallion to the buyer.

The marketing of proof sets has not been addressed. Sales of these coins should be handled separately by Bureau of the Mint as part of their current proof set marketing and sales program.

The intent of this paper is to discuss three possible marketing techniques for the sale of gold medallions and their estimated costs. The actual marketing plan will be closely coordinated with the congressional committees to insure that the congressional intent and objectives are met.

Appendix I
Cost Factors for "Dutch" Auction Method

Initial Costs

ADP Development Cost	$500,000
Furniture and Equipment	150,000
Printing-Forms-Stationery-Envelopes	100,000
	$750,000

Annual Operating Costs

Personnel (52 employee years)		$760,490
SLUC-Office space 10,400 sq. ft. at $6.84 sq. ft.		71,136
ADP Service		650,000
Advertising		800,000
Printing (Brochures-Posters)		850,000
Office supplies, equipment		100,000
Postage (Brochures-Posters)		750,000
Communications-General Mail		200,000
Travel		25,000
Registry & Mail Costs	(1 oz)	3,525,000
of Medallions 1/	(1/2 oz)	6,450,000 2/
Manufacturing Cost		4,500,000
Packaging (at $3 per medallion)		6,750,000
Shipping		35,000
Total		$25,466,626 3/
Initial Cost		750,000
Grand Total		$26,216,626
Estimated Surcharge		$11.66

1/ Includes: minimum registry fees ($100-$200 value) $3.30; ($200-$400 value) $3.70; $.55 postage (4 ounces); $.45 for return receipt.

2/ Bulk mailing would reduce costs.

3/ To cover minimum sale of 2.25 million medallions.

N. B. These costs are based on the assumptions cited in the enclosed narrative and our best estimates using current pay scales and historical expenditure levels for other cost areas, as of September 8, 1978.

Appendix II
Cost Factors for Predetermined or "Fixed" Price Method

Initial Costs

ADP Development Cost	$500,000
Furniture and Equipment	150,000
Printing-Forms-Stationery-Envelopes	100,000
	$750,000

Annual Operating Costs

Personnel (42 employee years)		$608,392
SLUC-Office space 8,320 sq. ft. at $6.84 sq. ft.		56,909
ADP Service		650,000
Advertising		800,000
Printing (Brochures-Posters)		850,000
Office supplies, equipment		100,000
Postage (Brochures-Posters)		750,000
Communications-General Mail		200,000
Travel		25,000
Registry & Mail Costs	(1 oz)	3,525,000
of Medallions 1/	(1/2 oz)	6,450,000 2/
Manufacturing Cost		4,500,000
Packaging (at $3 per medallion)		6,750,000
Shipping		35,000
Total		$25,300,301
Initial Cost		750,000
Grand Total		$26,050,301
Estimated Surcharge		$11.58

1/ Includes: minimum registry fees ($100-$200 value) $3.30; ($200-$400 value) $3.70; $.55 postage (4 ounces); $.45 for return receipt.

2/ Bulk mailing would reduce costs.

3/ To cover minimum sale of 2.25 million medallions.

N. B. These costs are based on the assumptions cited in the enclosed narrative and our best estimates using current pay scales and historical expenditure levels for other cost areas, as of September 8, 1978.

Appendix III
Cost Factors for Over-The-Counter Method

Initial Costs

Furniture and Equipment	$ 49,500
Printing-Forms-Stationery-Envelopes	100,000
	$149,500

Annual Operating Costs

Personnel (18 employee years)	$258,567
SLUC-Office space 3,600 sq. ft. at $6.84 sq. ft.	24,624
Advertising	800,000
Printing (Brochures-Posters)	850,000
Office supplies, equipment	26,000
Postage (Brochures-Posters)	750,000
Communications-General Mail	200,000
Travel	25,000
Manufacturing Cost	4,500,000
Packaging (at $1 per medallion)	2,250,000
Shipping	87,500
Total	$9,771,691
Initial Cost	149,500
Grand Total	$9,921,191
Estimated Surcharge	$4.41

N. B. These costs are based on the assumptions cited in the enclosed narrative and our best estimates using current pay scales and historical expenditure levels for other cost areas, as of September 8, 1978.

The CHAIRMAN. Very good. Senator Garn would like to submit a few questions to you, Secretary Bergsten, for your response. He had to leave for a meeting unfortunately.

Thank you very, very much for your excellent testimony and we appreciate it.

Now I'm going to ask a panel to come forward and I apologize for the late hour. We did have a number of witnesses we hadn't expected. Dr. Edward Bernstein, president, EMB, Ltd., Washington, D.C.; Mr. Frederic S. Bogart, vice president, Republic National Bank of New York; Mr. Grover C. Criswell, president, American Numismatic Association, Fort McCoy, Fla.; and Mrs. Elizabeth Currier, executive vice president, Committee for Monetary Research and Education, Greenwich, Conn.

Mr. Bernstein, you're a very distinguished expert in all these areas. You have informed us and honored us for years by your testimony.

Mr. BERNSTEIN. You know, Mr. Chairman, as an official of the U.S. Treasury I was the biggest seller of gold to the private market until recent years. The Treasury sold little wafers of 1⅞ ounces in India, Egypt, and Persia to raise money for our troops, but I would like to talk about——

The CHAIRMAN. Before you get into that, in view of the fact that we have four witnesses and it's now 25 minutes until 12, I'd appreciate it if you could limit your statements as much as possible, perhaps to 5 minutes if you could. The entire statement will be printed in full in the record.

STATEMENT OF DR. EDWARD M. BERNSTEIN, PRESIDENT, EMB, LTD., WASHINGTON, D.C.

Mr. BERNSTEIN. I won't take much time because I'm going to ignore the ideological part which lies behind Senator Helms' purpose and also behind the Treasury opposition. The view that Americans ought to be able to buy gold is perfectly reasonable but the notion that if he buys Treasury gold he has different gold from any other gold is not. The essential point of Senator Helms' proposal is not that a person will be able to buy Treasury gold; it's that he will be able to buy Treasury gold with the great seal of the United States and with a symbol of the Capitol and with an inscription which is stirring and is very American.

In my opinion, it's a terrible mistake to offer to Americans this extra inducement to buy gold coins. By the way, on the question you asked before, Jerons, who is certainly the greatest expert of the 19th century on money, defines a coin as an ingot whose weight and fineness is certified by the impression on it. There's no special need to have $20 written on it. Actually, our $20 gold coin was simply the same thing as 97½ percent of an ounce of fine gold.

As Mr. Bergsten pointed out, there's great volatility in the price of gold. Furthermore, there's a very big cost to buying and holding gold coins. I spoke to dealers of gold coins and you buy the Krugerrand at almost the smallest possible markup from gold bullion but you have to pay 6 percent for that and on top of that in many States and in the District of Columbia there's a sales tax that you have to pay when you buy a coin.

Let's assume that a person buys a gold coin and the markup for minting and marketing is about 6 percent and the sales tax is another 6 percent. It means that a person who holds this coin and bought it at a price of $200 plus this 12 percent, $225, would at the end of the 2 years, having lost 8 percent interest per annum, have to be able to sell the coin for $265 just to be where he would have been if he had bought a Government security instead of this coin.

In fact, when he comes to sell it, he gets no sales tax and the dealer isn't going to pay him any more than the bullion value if that much. My general conclusion is that, given the price of gold today—$198 this morning in London—given the price of gold in recent times, it is really not right for the Government of the United States to offer an inducement to people to buy gold coins by giving them this nice looking medallion for which they would have to pay 12 percent above the bullion value.

It is not, as you said, Mr. Chairman, a good hedge.

Now, having said that, I would be indifferent as to how the Treasury sells gold, if it weren't for the fact that this medallion would be very attractive, but attractive in a kind of emotional rather than an economic sense. If it weren't for that, I wouldn't have any opposition to it at all. I'm glad to see the Treasury sell gold. I don't think the proposal for selling a limited amount of 1- and ½-ounce coins would really work. What would happen is that if the Treasury sells only a million and a half ounces, these coins would go to a premium unless the Treasury was prepared to meet all the demand at the bullion price plus 6 percent. Let's find out other ways of dealing with the inflation problem. Let's find other ways of satisfying the right of Americans to invest in whatever form they wish as an inflation hedge.

The CHAIRMAN. Thank you very much, Dr. Bernstein.

[Complete statement follows:]

STATEMENT OF EDWARD M. BERNSTEIN, PRESIDENT, EMB (LTD.), WASHINGTON, D.C.

Since the termination of the Gold Pool in March 1968, the Treasury has sold a small amount of gold to private buyers—1.25 million ounces in 1975 and 1.2 million ounces in four auctions so far this year with an additional 600,000 to be sold in September and October and 1.5 million ounces in November and December. The sales will supply part of the gold that the United States absorbs in excess of domestic production. They will thus hold down the gold imports which amounted to nearly $1.3 billion in 1977.

As this shows, the United States depends on large imports of gold to meet the demand in the arts and industry and for hoarding, investment and speculation. In 1977, U.S. gold production amounted to 1.04 million ounces, down very slightly from 1976. The absorption of gold in the arts and industry was 5.09 million ounces in 1977, a considerable increase from the 4.42 million ounces in the previous year. The use of gold in manufacturing jewelry, about half of the total absorbed in the arts and industry, increased by 19 percent. The Report of Consolidated Gold Fields states: "The most important item in the increased offtake, especially in America, was the gold chain business." The use of gold in dentistry, electronics, and in the other arts and industry increased by 11 percent in 1977.

SUPPLY AND ABSORPTION OF GOLD IN THE UNITED STATES, 1976–77

[In millions of troy ounces]

	1976	1977		1976	1977
Supply	8.20	11.71	Absorption	8.20	11.71
U.S. production	1.05	1.04	Jewelry manufacturing	21.5	2.56
Secondary scrap	1.05	1.17	Denistry	.69	.76
Treasury sales			Electronics	.70	.79
Net imports	6.10	9.50	Other arts and industry	.88	.98
			Official coins	.05	.03
			Medals and medallions	.02	.10
			Imported coins	1.33	1.62
			Holding of traders, investors, speculators [1]	1.68	4.87

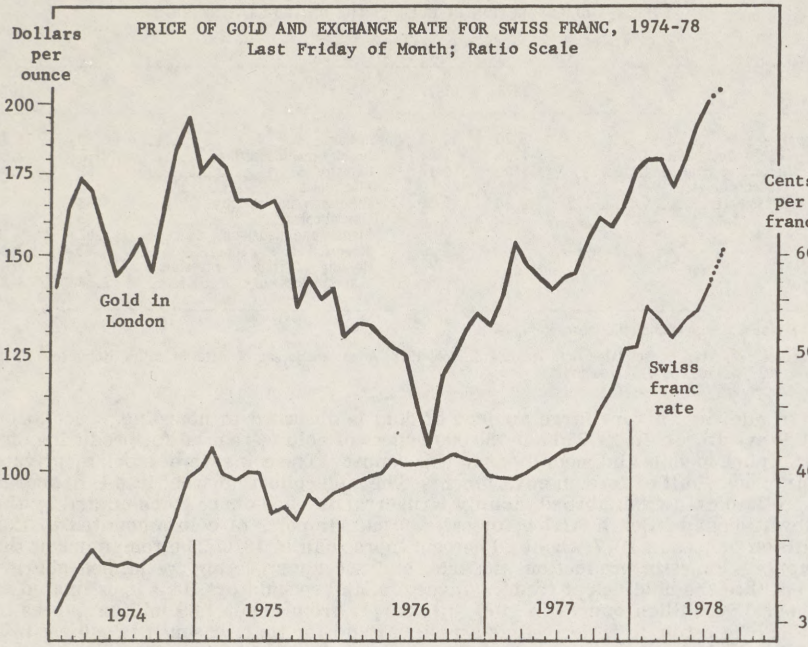
[1] Residual of supply and other absorption.

Source: Report of Consolidated Gold Fields Ltd., Gold 1978; American Bureau of Metal Statistics, Nonferrous Metal Data, 1977, p. 110; and U.S. Treasury.

In addition, a very large amount of gold is absorbed in hoarding, speculation and investment. In 1977 about 130,000 ounces of gold were used for producing official coins, medals and medallions in this country. The coins were struck by private mints on behalf of foreign governments. The gold coins that went into U.S. hoards were imported from abroad, mainly Krugerrands—one-ounce coins minted by the Government of South Africa for sale abroad. Imports of coin amounted to 1.62 million ounces in 1977, about 20 percent more than in 1976. The remainder of the supply—domestic production, imports, and secondary scrap (reclaimed gold)—went into the holdings of traders, investors, and speculators. This is estimated at about 4.87 million ounces in 1977, up sharply from about 1.68 million ounces in 1976. The estimate is derived as a residual and for that reason it is subject to a relatively large margin of error. The amount absorbed in hoarding, investment, and speculation varies sharply from year to year, depending on the confidence of the public in the economy and in the currency, and in some years there have been net sales from speculative holdings.

The Treasury's gold sales will reduce the amount of gold that would otherwise be imported this year, but the effect on the balance of payments will be relatively small. If the 3.3 million ounces are sold at an average price of about $200 an ounce, the receipts would be about $660 million. That would be one-half of the gold imports of 1977, but probably a smaller proportion of such imports this year. The saving in gold imports would be 2.1 percent of the trade deficit of $31.1 billion in 1977 and probably a smaller proportion of the trade deficit this year. Nor can gold sales of such an amount have much direct effect on the price of gold under present conditions. Treasury gold sales this year are equal to about 6.4 percent of the total supply in the private market in 1977, and 16.0 percent of the amount of gold sold by the monetary authorities, including the International Monetary Fund, and the Communist countries last year.

Because of the large demand for gold at this time, the market may be able to absorb the additional Treasury supply with little effect on price. If the demand were to ease somewhat, the Treasury sales could put pressure on the price. The demand for gold is basically determined by expectations of inflation and the complex of economic conditions which result from inflation. In the short run, however, the main factor that determines the demand for gold and its dollar price is the behavior of the exchange rates for the strongest currencies. In the past 20 months, the price of gold in London has risen from $134.75 an ounce on December 30, 1976 to $207.40 an ounce on August 22, 1978—an increase of 54 percent. This is about the same as the rise in the dollar rate for the yen, somewhat more than the rise in the rate for the Swiss franc (47 percent), and much more than the rise in the rate for the D-mark (18 percent).



As you can see from the chart on page 3, the dollar price of gold has been very volatile in the past five years. Except in the second half of 1975 and in all of 1976, the dollar price of gold has tended to parallel the dollar rate of exchange for the Swiss franc, the currency most affected by capital flows. As that indicates, speculation in gold has much the same effect as an outflow of funds from the United States and for that reason it tends to intensify fluctuations in exchange rates. If Treasury sales of gold have an effect on the exchange rate, it would seem to be mainly psychological—as a symbol of the willingness of the United States to support the dollar. Neither the gold market nor the exchange market has derived this message from the Treasury's sales of gold so far this year. Perhaps the much larger sales of 750,000 ounces a month from November 1978 to February 1979, reinforced by the other measures taken by the monetary authorities, will have a greater effect.

S. 2843, entitled the "Gold Medallion Act of 1978," would require the first 1.5 million ounces of gold sold by the Treasury in the first year after its enactment to be in the form of one-ounce and half-ounce medallions having symbols and inscriptions associated with the United States and bearing its name. While these may be called medallions, they would, in fact, be gold coins whose weight and fineness are certified by the U.S. Government. According to Jevons: "Coins are ingots of which the weight and fineness are certified by the integrity of the designs impressed upon the surface of the metal." It should be noted that the Krugerrand is classified as an official coin rather than as a medallion.

The American people, and perhaps people in other countries, would regard a U.S. one-ounce gold piece as an attractive form of hoarding. The Government of South Africa has a good reason for minting Krugerrands and exporting them all over the world—it wants to increase the demand for gold, its principal export. The United States has no reason for competing with South Africa in the sale of coins or medallions, encouraging the view that this would help down inflation or that it is an appropriate hedge against inflation for people of modest means. Prices of coins and medallions are higher than the current value of their gold content because of the cost of minting and marketing—5 to 6 percent for the Krugerrand. In some states, including the District of Columbia, purchases of gold coins and medallions are subject to a sales tax. The price of gold is very volatile, yields no return, and the opportunity cost of holding gold is about 9 percent or more per annum as measured by the forward premium in the gold futures markets. This bill would have the United States enter into the business of minting and marketing coins or medallions at the very time that the price is at a new peak.

The bill states or implies that people of modest means should have the same access to buying gold from the Treasury as the bullion dealers who are the principal buyers at Treasury auctions as they are at the auctions of the International Monetary Fund and other large sales of gold including newly-mined gold. For the Treasury to fiive small buyers the same opportunity to buy its gold as the bullion dealers it would not only have to mint the coins or medallions, but undertake to retail them at very little mark-up at public offices. Actually, there is no shortage of gold coins or medallions at present prices; and unless the Treasury were prepared to assume the cost of minting and marketing, the price that buyers would pay for those issued by the Treasury would be much the same as they would pay for Krugerrands. Moreover, if hoarders attach a value to the impress on the coins or medallions, United States of America, as they probably would, the premium buyers would pay over the bullion value would be even greater unless the Treasury decided to meet a greatly increased demand by issuing more coins or medallions.

I cannot see that the Treasury would derive any benefit from the issue of one-ounce coins or medallions except perhaps to increase slightly the profits from its gold transactions if it sold them at a premium in excess of the cost of minting and marketing. The issue of coins or medallions would have no more effect on the trade balance than a sale of the same amount of gold bullion by the Treasury, if they replaced Krugerrands on a one-for-one basis, and it would have less effect if the result was to increase hoarding in the United States unless the Treasury offset this by selling more gold. As a practical matter, the Treasury might have to sell more gold to keep the same relation of supply to demand that would have prevailed without its minting coins or medallions in place of selling bullion. It is difficult to see how the bill if enacted would either strengthen the dollar in the exchange market or hold down the price of gold.

The sale of the coins or medallions would bring slightly more revenue to the Treasury than the sale of an equal amount of bullion. That is not the purpose of Treasury sales of gold, although the extra 1.5 million ounces which the Treasury will sell in November and December will add to the receipts from its gold transactions. If this gold is sold at an average price of $200 an ounce it would yield receipts of $300 million of which $63 million would be used by the Treasury to retire gold certificates and $237 million would be additional revenue, reducing the budget deficit to this extent.

It is argued both for and against this bill that it would somehow affect the inflation problem which should have precedence in all aspects of economic policy. The minting and sale of gold coins or medallions by the U.S. Treasury would have no effect on aggregate demand, unless it were an addition to what hoarders would otherwise save. Even if the entire 1.5 million ounces minted by the Treasury were a net addition to domestic saving, it would result in only an infinitesimal reduction of consumer spending now running at $1,325 million a year.

The inflation in the United States originated in excessive domestic demand, but that is not the reason why it has persisted and become much worse. Domestic demand is not excessive at present unless the enormous trade deficit is regarded as a spill-over that cannot be met out of domestic production. The budget deficit has been much too large for this stage of the expansion, but much of it has been a response to the trade deficit rather than a cause of excessive domestic demand. It is more than a coincidence that President Carter proposed a fiscal stimulus of $16 billion a year at the beginning of 1977, following a deterioration of $18 billion in the trade balance of 1976, and a tax reduction of $24 billion a year at the beginning of 1978, following an increase of $22 billion in the trade deficit last year. In my opinion, the flood of imports has not held down prices because the trade deficit has caused an excessive depreciation of the dollar which has contributed to the accelerated rise of prices and costs.

The inflation in the United States is almost wholly a cost inflation. In dealing with the inflation it is essential that the Government itself show that its fiscal and monetary policies are directed to restoring monetary stability. The most cautions fiscal and monetary policies will not slow or halt the inflation, however, unless production costs in the nonfarm business economy are brought down and that means essentially unit labor cost. The search for new routes of escape from the consequences of inflation will not help in solving the inflation problem and that applies as much to providing consumers with gold coins or medallions in which to hoard their savings as it does to indexing wages in order to insulate more than three-fourths of personal income from all economic hazards that have an adverse effect on real income—bad crops, a deterioration in the terms of trade, and even a decline in productivity. The greatest money illusion is that it is possible to increase real wages by a massive increase of money wages. We shall not make any progress in slowing the inflation until our labor leaders have learned this lesson, so clearly demonstrated in the United Kingdom and continental Europe.

Perhaps something could be done to influence the exchange market through very large sales of gold. That might have a minor effect in supporting the dollar when it is driven too low by speculation. It would not, however, deal with the real causes of the depreciation of the dollar—the inflation of prices and costs and the enormous trade deficit. Unless we follow policies that will help to solve these problems, the sale of our gold reserves could have a perverse effect because it would dispose of those of our assests which some holders of dollars seem to regard as of special importance for a reserve center.

The system of floating exchange rates has not worked well, although there is no real alternative under present conditions except to improve it. If progress is made in dealing with inflation, however, a new exchange system may evolve in which greater flexibility of exchange rates is combined with a reasonable degree of stability or, at least, without excessive fluctuations not justified by changes in underlying economic conditions. Under such a system, countries will need international monetary reserves. The only such reserves the United States now has are gold and it would be well not to dissipate them by supplying large amounts of gold to hoarders or speculators.

The CHAIRMAN. Mr. Bogart.

STATEMENT OF FREDERIC S. BOGART, VICE PRESIDENT, REPUBLIC NATIONAL BANK OF NEW YORK

Mr. BOGART. I was invited to answer six questions which I have answered and it's for the record. It's been printed and you have it.

I would like to take this opportunity to express my personal viewpoints and, incidentally, the viewpoints are the same as most of my acquaintances.

I'm a little guy from New York. What is happening around us that is taking gold to these new record prices? A record price, by the way, in dollars, not a record price in Swiss francs or yen. To me, all gold is a symptom. It's an effect. I would like to quote myself, "a psychological medal." It's a mirror and it's a mirror of the dollar. Gold was the cornerstone of our international monetary system. It has just recently been legislated out of that system. All well and good. Actually, there was not enough gold to underpin the money needed to finance international trade in these past years anyway.

Then the dollar took its place—certainly the dollar is much more useful than gold. Holding dollars can earn interest. Gold does not. We are still the strongest country in the world economically and militarily and it's our currency that is underwriting the world trade. It makes much more sense than gold. So why do we see record prices for gold? Only due to the erosion of confidence the world has for the dollar. In spite of the United States being the strongest and largest economic power, we are losing our grip. There is only one word to sum up the bottom line for a nation's well-being and that word is inflation. How well are we faring with inflation? I say not too well at all. We are eroding our middle class. A $25,000 paycheck 10 years ago is probably better than a $100,000 paycheck today after the tax bite.

The most important method of dealing with inflation is to improve productivity. We lost our competitiveness and innovation to Germany and Japan. What happened to our own aspirations? Where does all this leave us with gold? The dollar has replaced gold as the numeraire and it should be at least as good as was its predecessor and, if it is not, people now have a choice; back to gold, and in times of inflation we must hold our assets.

Our gold stock 10 years ago was worth $11 billion. Today's it's about $60 billion. Inflation has not been lowered. Why are we selling gold? Why are we not keeping it as a stored value? We are selling a capital asset and using the proceeds to finance current expenses. Senator Proxmire, this is exactly what New York City has been doing for 20 years.

Let our Government curb inflation, increase productivity, and live within its means and I can assure you that then gold will be the furthest thought on anybody's mind. You wouldn't be able to give the stuff away. Think back to our low inflation years. Gold would move in price by a quarter of a cent. A nickel a day change in price was tremendous. In other words, outside of central bankers and the few diehard believers in gold, nobody cared. But if people see the dollar battered by inflation, no amount of Government selling of gold, an age-old stored value, can hold the price down for too long.

As for S. 2843, the bill to make gold medallions, my question is: Why not? If we really are going to sell the metal, at least give us here in the United States a better chance to own some. It will be a good gage of American sentiment for the value of our own currency. By the way, our bank could muster enough interest among our own dealers to guarantee the sale of a million and a half ounces of gold by the Treasury to insure that the Treasury does not sustain a loss in the manufacturing or production. Thank you.

The CHAIRMAN. Thank you very much, Mr. Bogart.

[Complete statement follows:]

STATEMENT OF FREDERIC S. BOGART, BEFORE THE SENATE BANKING COMMITTEE, AUGUST 25, 1978, WASHINGTON, D.C.

I am honored to have been asked to testify before the Committee on Banking, Housing and Urban Affairs at this hearing on Bill S. 2843, which would provide for the issuance of gold medallions.

My remarks here today will answer the questions posed by the Committee with regard to this bill. Naturally, my answers will reflect my own experience as a worldwide gold trader, which I will describe for the Committee.

I am a vice president of Republic National Bank of New York, where I manage the Gold Department Republic is the only bank in the United States which has complete trading capabilities. Let me emphasize that at Republic, we are traders and market makers and not speculators. Today Republic National Bank of New York is a major dealer of gold around the world in both coins and bullion and in the forward markets.

Through its European sister bank, Trade Development Bank, Geneva, Republic Bank became very experienced in the Old World banking traditions of Europe, of which gold trading is very much a part. I started the department in 1968, when the U.S. Treasury granted us a license to deal in gold bullion with industrial customers. Since the Republic has sold approximately 1½ to 2½ million ounces of gold bullion per year to our customers in the United States. This is about one third of the total industrial market consumption of gold in each year.

Republic National Bank of New York has dealt extensively in gold coins since 1970. Intially we were dealers in the U.S. Double Eagle and the English Sovereign. When the Mexican 50 Peso and the Austrian 100 Kroner became legal in 1974 we added these coins to our trading portfolio. In 1975, the Krugerrand became legal and this coin also become part of our trading inventory.

Republic built up its trading activity when gold futures trading became legal in 1975. We now trade extensively on the two big futures trading markets in the United States, the Commodity Exchange Inc. (COMEX) and the International Monetary Market of Chicago (IMM), as arbitrageurs. We do business with the spot markets the physical gold market around the trading world which includes the banks and brokers of London, Zurich, the Far East and the Middle East.

At this point I would like to address myself to the specific questions of the Committee:

(1) I have included Attachments 1A, 1B, 1C, 1D and Attachment 2. These Attachments show that after the initial market reaction to past announcements of Treasury gold sales, the markets took Treasury gold sales in stride. However, we can assume that without these Treasury gold auctions, the gold prices would be somewhat higher because that much less gold would be on offer in the open markets.

(2) Attachment 4, column 5 shows government and government agency purchases or sales of gold and column 6 shows the total private purchases of gold. Attachment 5 categorizes the uses of the gold purchased by the private sector. These categories are displayed graphically in Attachment 6 which separates them into two groups (1) investment and hoarding and (2) industrial and commercial uses.

Basically, the investment and hoarding purchase's include those who purchase gold as gift items and those who consider their holding a store of value.

To date, comparatively few U.S. citizens have had any form of gold dealings. The traditional centers for gold ownership within this group have been some underdeveloped countries, and Switzerland, France and lately, the Middle East.

(3) Between the banks, the brokers, coin dealers the numismatists, and metal trading houses, American citizens have the ability to purchase the type of gold they wish. One could also buy gold on the futures markets.

We have seen the following relationships in the United States between trading volume and gold prices: purchases increase as gold prices against the dollar increase, while trading in this country tends to decrease as gold prices decrease. That same trend is not true in other parts of the world. For private hoarders in the U.S., coins have become most popular. This is due to the fact that coins do not require the assay charges that a bullion transaction does. In addition, coins are generally of smaller denominations and therefore more accessible to individuals. They are also generally more attractive looking to private holders than bullion.

With the free world spot bullion price as the common denominator the premiums that are currently being paid for the different types of gold offered are as follows: Krugerrands, 4 percent; Mexican 50 Pesos, 3½ percent; Austrian 100 Kroners, 2½ percent; bullion (standard bars), 1 percent; wafer bars (one ounce bars), 5 percent; and the more limited gold certificates, 1–3 percent. These premiums have fluctuated from higher levels in past years but over the last twelve months have remained stable at the rates given.

(4) All forms of gold, in fact, compete with each other. Among investors and hoarders, there exist regional preferences in forms of gold ownership around the world. The U.S. preference has been to purchase coins and the Krugerrand has been the preferred coin for several reasons. That is because it is exactly one ounce therefore making investment calculations easy, and there is only a moderate premium over the bullion price. It is also being heavily promoted.

(5) I have no idea how much it would cost the Treasury to produce the medallion. My personal opinion is that the press coverage would be sufficient so that the government would not have to commercially advertise the medallion in excess of their other coin products.

Although I do not know how much money it would cost the government to sell the medallions, one way to approximate the amount, I believe, would be to estimate how much it costs to sell the 300,000 ounces of bullion each month. The paperwork involved with selling the medallions would be higher due to the many more bids which would be involved.

As for profit, keep in mind that the Treasury would also make more money on medallions than it does on bullion because the medallion, like all the coins mentioned, would sell at a premium.

If you let the market set the premium you would not have a case of a premium that is too high or too low. Profits would of course, be dependent on the markets.

There would most likely be a reduction in Krugerrand sales due to medallion production in the U.S. but the extent is difficult to ascertain.

In my opinion the medallion will also create a new market because many Americans now unfamiliar with gold ownership would probably wish to own an American issued medallion. In addition over time, American hoarders will probably favor the medallion over the Krugerrand.

(6) A. Issuance of gold meadallions would not affect Treasury gold sales at all unless Treasury gold sales are predominantly medallions as per section 2(b) of S. 2843. Under this Bill the Treasury is free to sell bullion in excess of medallions as it wishes. However bullion is bought overseas while medallions would be bought here.

B. Since the Treasury would be selling medallions and therefore less bullion on the open market, the price trend would be to rise. The slack in Krugerrand sales due to medallions would prompt the South African government to issue more bullion offsetting the price increase. Right now Krugerrand sales go mostly to investors. South African bullion to replace Krugerrand sales would increase the amount of gold in the open markets.

C. Issuance of gold medallions would have a very short-term positive effect on the U.S. balance of payments. To the extent that U.S. medallions are sold overseas there would be a like improvement in our balance of payments and the reduced Krugerrand sales to Americans would mean fewer dollars would be exported. Gold import trends would be difficult to guess at when Americans become more familiar with gold investing.

D. Inflation is not affected by these sales at all. To the most minute amount Treasury, however, will be absorbing some dollars.

E. Treasury revenues from gold sales will be greater than under the current practice of selling only bullion on the open markets. I am certain that these medallions would produce a premium and Treasury profits would be a function of the premium.

I thank the Committee for this opportunity to address you on this matter.

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ATTACHMENT 1A

REPUBLIC NATIONAL BANK OF NEW YORK

GOLD REVIEW

Vol. 2, No. 5 — A Monthly Newsletter Serving the International Financial Community — May 1978

Market in April: Gold Auctions Okayed by U.S. Government

APRIL 3 (Monday)

A.M. Fix: 182.75
P.M. Fix: 183.40
Comment: Following a statement by Arthur Burns, former chairman of the Federal Reserve Board, that the U.S. should use "all its resources" to combat its trade deficit, the dollar stabilized and gold closed at 179.25 as large selling orders predominated.

APRIL 4 (Tuesday)

A.M. Fix: 179.80
P.M. Fix: 180.50
Comment: With the price of gold steadied in London at the fixing levels, a report by Reuters quoting a U.S. consultant that a U.S. gold auction was imminent drove the market down to a low of 175.50 in hectic trading. It finally steadied and gold closed at 178.00.

APRIL 5 (Wednesday)

A.M. Fix: 178.65
P.M. Fix: 178.40
Comment: The U.S. market opened at the fixing level and once again bearish sentiment prevailed. After trading at 179 even, we fell to 177.50 before a rally — spurred by forecasts of more large trade deficits — brought the price up to 180.00. We closed at 179.00 as the market awaited the IMF auction results.

APRIL 6 (Thursday)

A.M. Fix: 182.00
P.M. Fix: 182.50
Comment: In London gold experienced a big rally that stemmed primarily from an announcement by the Treasury Department that there would not be a U.S. gold auction "right now," New York, however, did not carry through and we closed at the P.M. fixing level.

APRIL 7 (Friday)

A.M. Fix: 179.25
P.M. Fix: 179.50
Comment: Hong Kong and Europe both sold gold down to the fixing level. Then it was New York's turn to sell and we closed at 178.25 in light trading.

APRIL 10 (Monday)

A.M. Fix: 178.70
P.M. Fix: 178.70
Comment: A quiet, featureless day, with nothing on either side of the market. We closed at 179.00 as the market awaited President Carter's scheduled speech Tuesday on inflation.

APRIL 11 (Tuesday)

A.M. Fix: 179.65
P.M. Fix: 179.60
Comment: Trading was light through most of the world as the markets marked time until 1:30 P.M. (EST) when President Carter made his inflation speech. Gold promptly declined to 178.00 and the ensuing rally was crazy as we traded up to 182 in wild markets. Gold finally closed at 180.75.

APRIL 12 (Wednesday)

A.M. Fix: 180.70
P.M. Fix: 180.00
Comment: Another dull and boring day. A scheduled speech today by Treasury Secretary W. Michael Blumenthal initially brought gold to 179.00. But when Blumenthal made no mention of a gold auction the market recovered later and closed at 180.00.

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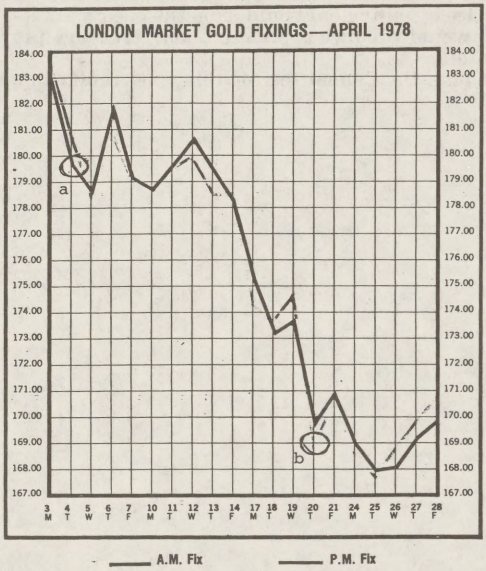

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ATTACHMENT 1B

REPUBLIC NATIONAL BANK OF NEW YORK
GOLD REVIEW
Vol. 2, No. 6 A Monthly Newsletter Serving the International Financial Community June 1978

The Market in May: Gold Makes a Surprise Move Over 180

MAY 1 (Monday)

Comment: No fixings; markets in Europe closed in observance of May Day. In New York, in the year's lightest trading, we drifted down to 169.25.

MAY 2 (Tuesday)

A.M. Fix: 169.15
P.M. Fix: 168.90
Comment: The market stayed within a very narrow trading range most of the day at 169.25, but rallied to 170 in speculation buying and short covering.

MAY 3 (Wednesday)

A.M. Fix: 170.30
P.M. Fix: 170.45
Comment: The bullish market in New York led the way to higher rates until we closed at 171.35 in very steady trading.

MAY 4 (Thursday)

A.M. Fix: 172.90
P.M. Fix: 173.30
Comment: Total bids at the IMF auction exceeded 3,000,00 ounces and a lot of shorts evidently were caught without gold. Hong Kong opened at 172.50 and we traded up to 174, closing at 173.25.

MAY 5 (Friday)

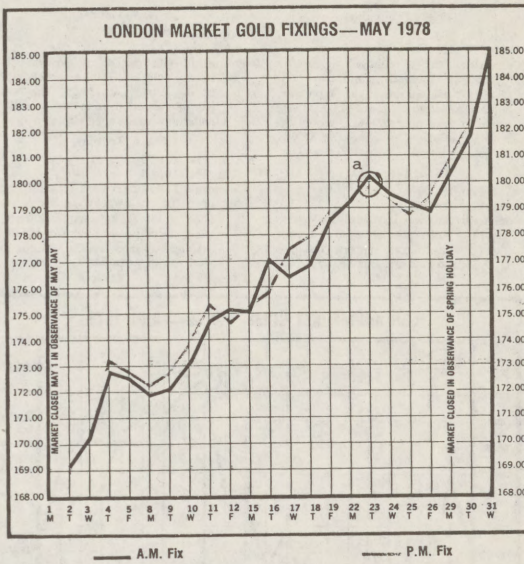
A.M. Fix: 172.55
P.M. Fix: 172.80
Comment: In a quiet market, we traded in a narrow range and closed at 173.00.

MAY 8 (Monday)

A.M. Fix: 171.95
P.M. Fix: 172.20
Comment: With the dollar strengthened as the result of an OPEC announcement that no price hikes were contemplated for oil, gold came down to the 172 level, where it traded all day. We closed at 172.30, with Europe as buyers and our forward markets here as sellers.

MAY 9 (Tuesday)

A.M. Fix: 172.15
P.M. Fix: 172.70
Comment: Why that second fixing came in above the first fixing is anyone's guess. The market simply did not want to go up, especially with the dollar firming. We tried 173.25, closed at 172.45.



MAY 10 (Wednesday)

A.M. Fix: 173.10
P.M. Fix; 173.95
Comment: An absence of sellers and short covering pulled the market up to the 174 level where it stayed all day.

MAY 11 (Thursday)

A.M. Fix: 174.85
P.M. Fix: 175.35
Comment: The expected explosion on the futures exchanges did not materialize. With the dollar stronger and few buyers at this level, we closed at 174.00.

MAY 12 (Friday)

A.M. Fix: 175.10
P.M. Fix: 174.70
Comment: Rumors of a reduction in the amount of gold by the IMF boosted gold to the 175 level. But a strong dollar pushed it lower to close at 174.00.

MAY 15 (Monday)

A.M. Fix: 175.00
P.M. Fix: 175.25
Comment: With the dollar strong and the stock market firm, we closed at 176.00.

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ATTACHMENT 1C

REPUBLIC NATIONAL BANK OF NEW YORK
GOLD REVIEW
Vol. 2, No. 7 A Monthly Newsletter Serving the International Financial Community July 1978

The Market in June: Gold Traded Within Narrow $6 Range

JUNE 1 (Thursday)

A.M. Fix: 183.25
P.M. Fix: 183.00
Comment: The market moved higher after opening $1 lower, again in quiet trading. It fell to a low of 182.90 on spot, then rallied to close at 184.00. Silver, which also opened lower, closed 2¢ higher. Currencies were mixed: SF was strong, with the DM and Yen weaker.

JUNE 2 (Friday)

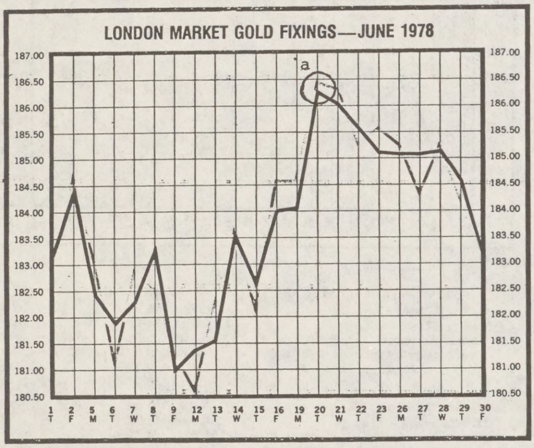
A.M. Fix: 184.50
P.M. Fix: 184.75
Comment: Gold was very steady and traded at 185.50 on spot. Silver fell as a result of a lack of buying support, closing at 5.35, and gold closed at 182.75.

JUNE 5 (Monday)

A.M. Fix: 182.50
P.M. Fix: 183.05
Comment: With the dollar exceptionally steady, gold lost $1 in extremely dull trading, closing at 181.75. This was one of the few days in June that the dollar showed any appreciable strength.

JUNE 6 (Tuesday)

A.M. Fix: 181.95
P.M. Fix: 181.05
Comment: Following a weak second fixing of 181.05, the market was sold down to a low of 180.50, but came back strong late in the session to close over 182.00. Trading was moderate, largely due to weakness in the dollar.



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JUNE 7 (Wednesday)

A.M. Fix: 182.35
P.M. Fix: 182.95
Comment: Gold opened steady and went over 183.00, but then buying dissipated as the market awaited the the result of the IMF auction. Some moderate selling by commission houses moved the market down to close at 180.75.

JUNE 8 (Thursday)

A.M. Fix: 183.40
P.M. Fix: 182.60
Comment: With the IMF auction results favorable, gold recovered Wednesday's loss to close at 182.00 after going up to 183.00. A lack of buyers on U.S. exchanges resulted in late weakness.

JUNE 9 (Friday)

A.M. Fix: 181.00
P.M. Fix: 181.30
Comment: Gold came back from a low of 181.00 to close at 181.50 in quiet trading. Foreign exchange markets were also quiet and stable.

JUNE 12 (Monday)

A.M. Fix: 181.40
P.M. Fix: 180.55
Comment: A minimum of interest brought the market to the second fixing level. The Yen made new highs against the dollar and we closed at 181.50.

JUNE 13 (Tuesday)

A.M. Fix: 181.60
P.M. Fix: 182.35
Comment: This was a very steady day, with the U.S. markets on the long side. We closed at 183.40 amid what appeared to be new bullish trends.

JUNE 14 (Wednesday)

A.M. Fix: 183.65
P.M. Fix: 183.70
Comment: The New York market opened strong, but suddenly the buying stopped. Silver and copper dropped, pulling gold down to a 183.20 close.

JUNE 15 (Thursday)

A.M. Fix: 182.55
P.M. Fix: 182.15
Comment: Good buying at the 182 level after the second fixing kept gold steady. But when silver launched a rally, it carried gold with it. Speculators bid the market up to close at 184.00.

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ATTACHMENT 1D

REPUBLIC NATIONAL BANK OF NEW YORK

GOLD REVIEW

Vol. 2, No. 8 A Monthly Newsletter Serving the International Financial Community August 1978

Market in July: Gold Soars Over $200 for All-Time Record

JULY 3 (Monday)

A.M. Fix: 183.00
P.M. Fix: 183.25
Comment: The market held at the 183.00 level in Europe, and the New York market, with trading quiet but steady, closed at 183.80.

JULY 4 (Tuesday)

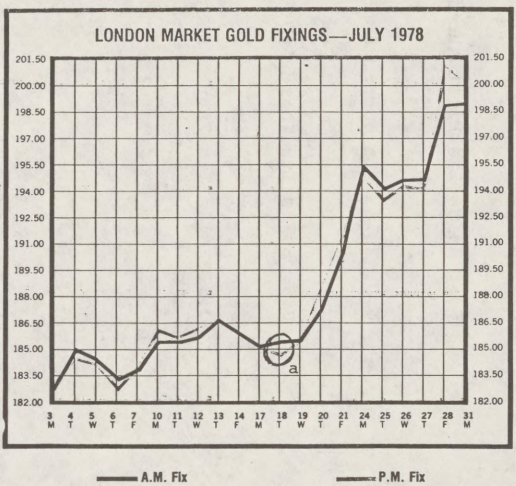
A.M. Fix: 185.00
P.M. Fix: 184.40
Comment: With the U.S. observing Independence Day and the continental currencies strengthening against the dollar, fresh buying took gold as high as 185.50 before we finally closed at 184.50.

JULY 5 (Wednesday)

A.M. Fix: 184.40
P.M. Fix: 184.20
Comment: This was a day when everybody went to sleep. We closed at 184.00 after a dull session marked by very little trading. It was so dull that the IMF auction almost passed without notice.

JULY 6 (Thursday)

A.M. Fix: 183.45
P.M. Fix: 182.75
Comment: A disappointing total bid received at the IMF auction brought gold lower. Trading was quiet all day, hovering around the second fixing level, and gold closed at 183.00.



JULY 7 (Friday)

A.M. Fix: 183.85
P.M. Fix: 183.95
Comment: The market held at the 183.00 level until fresh buying lifted it to the fixing levels. The shorts became nervous late in the day and, in their efforts to cover, pushed gold up to close at 185.25. There was not much business, but even less selling.

JULY 10 (Monday)

A.M. Fix: 185.50
P.M. Fix: 186.05
Comment: The weak dollar held gold stable at these higher rates. We closed at 186.25 after going up to 187.00 in New York.

JULY 11 (Tuesday)

A.M. Fix: 185.35
P.M. Fix: 185.50
Comment: Once again it was "quiet but steady." There was no steam to move the market up, yet little interest to sell. We remained at the fixing level all day.

JULY 12 (Wednesday)

A.M. Fix: 185.70
P.M. Fix: 186.30
Comment: A high second fixing held most of the day. The market still was characterized as "very quiet," with a notable absence of selling.

JULY 13 (Thursday)

A.M. Fix: 186.70
P.M. Fix: 186.70
Comment: The day started with high expectations, but buying stopped after the second fixing and we traded down to close at 185.50.

JULY 14 (Friday)

A.M. Fix: 186.00
P.M. Fix: 186.00
Comment: Good buying by the European market brought gold up to the fixing level. However, with traders awaiting the outcome of the economic summit conference in Bonn, the market was exceptionally quiet. We closed at the same point we opened — 186.00.

continued on reverse side

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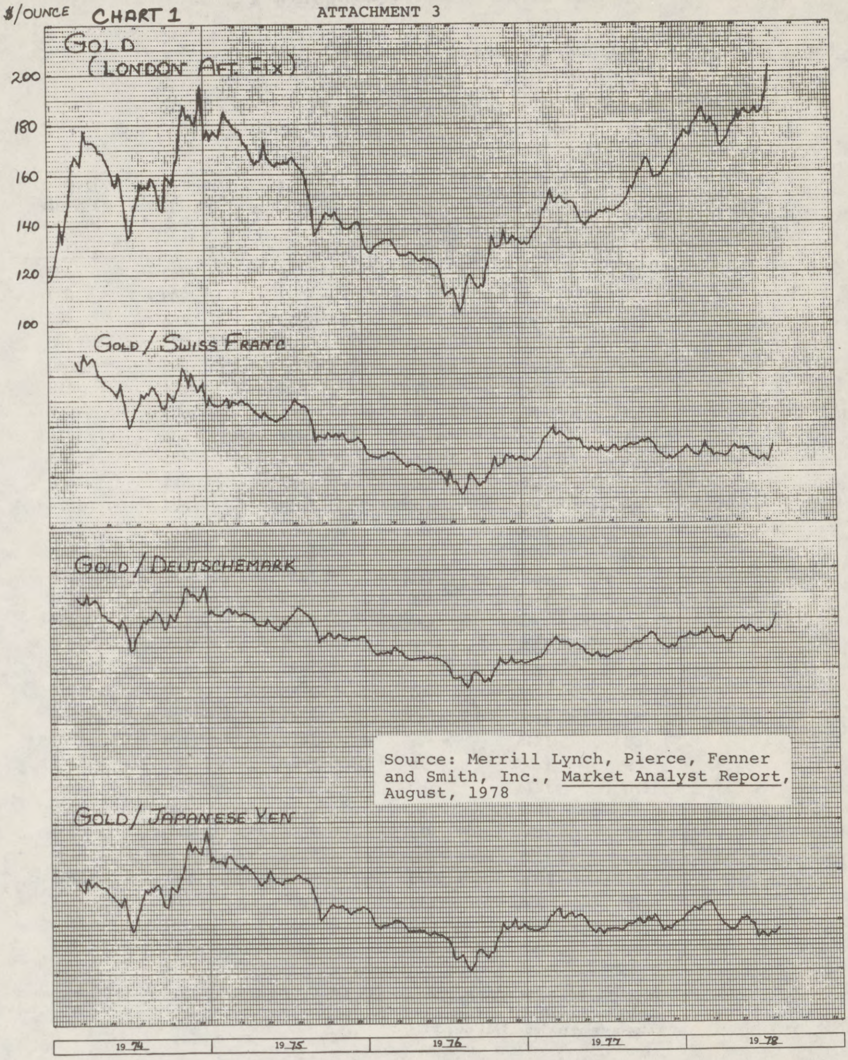
ATTACHMENT 2

APPROXIMATE PRICE OF GOLD

Date	Approximate Price Per Oz.	Comments	Comparative Prices of Three Major Foreign Currencies to U.S. $1.00
4/4/78 (Ref. 1Aa)	$ 180	Statement Over Reuters By A U.S. Consultant That A U.S. Gold Auction Was Imminent	
4/20/78 (Ref. 1Ab)	170	U.S. Announces First Gold Auction	Swiss Franc/$ 1.9525- 1.9775 Deutschemark/$ 2.0615- 2.0775 Yen/$ 224.25 -226.00
5/23/78 (Ref. 1Ba)	180	U.S. Holds Its First Auction	Swiss Franc/$ 1.9675- 1.9750 Deutschemark/$ 2.1225- 2.1325 Yen/$ 228.70 -229.00
6/20/78 (Ref. 1Ca)	186	U.S. Holds Its Second Auction	Swiss Franc/$ 1.8625- 1.8750 Deutschemark/$ 2.0725- 2.0800 Yen/$ 210.50 -212.50
7/18/78 (Ref. 1Da)	185	U.S. Holds Its Third Auction	Swiss Franc/$ 1.8225- 1.8350 Deutschemark/$ 2.0625- 2.0675 Yen/$ 202.50 -202.75
8/15/78	213	U.S. Holds Its Fourth Auction	Swiss Franc/$ 1.5575- 1.5925 Deutschemark/$ 1.9220- 1.9450 Yen/$ 181.80 -184.25

Source: Republic National Bank of New York

ATTACHMENT 3



Source: Merrill Lynch, Pierce, Fenner and Smith, Inc., Market Analyst Report, August, 1978

ATTACHMENT 4

Table 1 **Gold Bullion Supply and Demand 1948–1977**
Metric Tons

Columns: 1	2	3	4	5	6
	Free World Mine Production	Net Trade with Communist Bloc	Total Supplies	Official Purchases or Sales*	Net Private Purchases
1948	702	—	702	369	333
49	733	—	733	369	337
1950	755	—	755	288	467
51	733	—	733	235	498
52	755	—	755	205	550
53	755	67	822	404	418
54	795	67	862	595	267
55	835	67	902	591	311
56	871	133	1004	435	569
57	906	231	1137	614	523
58	933	196	1129	605	524
59	1000	266	1266	671	595
1960	1049	177	1226	262	964
61	1080	266	1346	538	808
62	1155	178	1333	329	1004
63	1204	489	1693	729	964
64	1249	400	1649	631	1018
65	1280	355	1635	196	1439
66	1285	–67	1218	–40	1258
67	1250	–5	1245	–1404	2649
68	1245	–29	1216	–620	1836
69	1252	–15	1237	90	1147
1970	1274	–3	1271	236	1035
71	1236	54	1290	–96	1386
72	1183	213	1396	151	1245
73	1121	275	1396	–6	1402
74	1008	220	1228	–20	1248
75	956	149	1105	–15	1120
76	971	412	1383	–70	1453
77	965	401	1366	–241	1607

*Definition of official sales has been extended from 1974 to include activities of Government controlled investment and monetary agencies in addition to central bank operations. This category also includes IMF disposals.

Source: Consolidated Gold Fields Limited, GOLD 1978, page 8

ATTACHMENT 5

Table 3 **Fabrication and Investment Demand**
Metric Tons

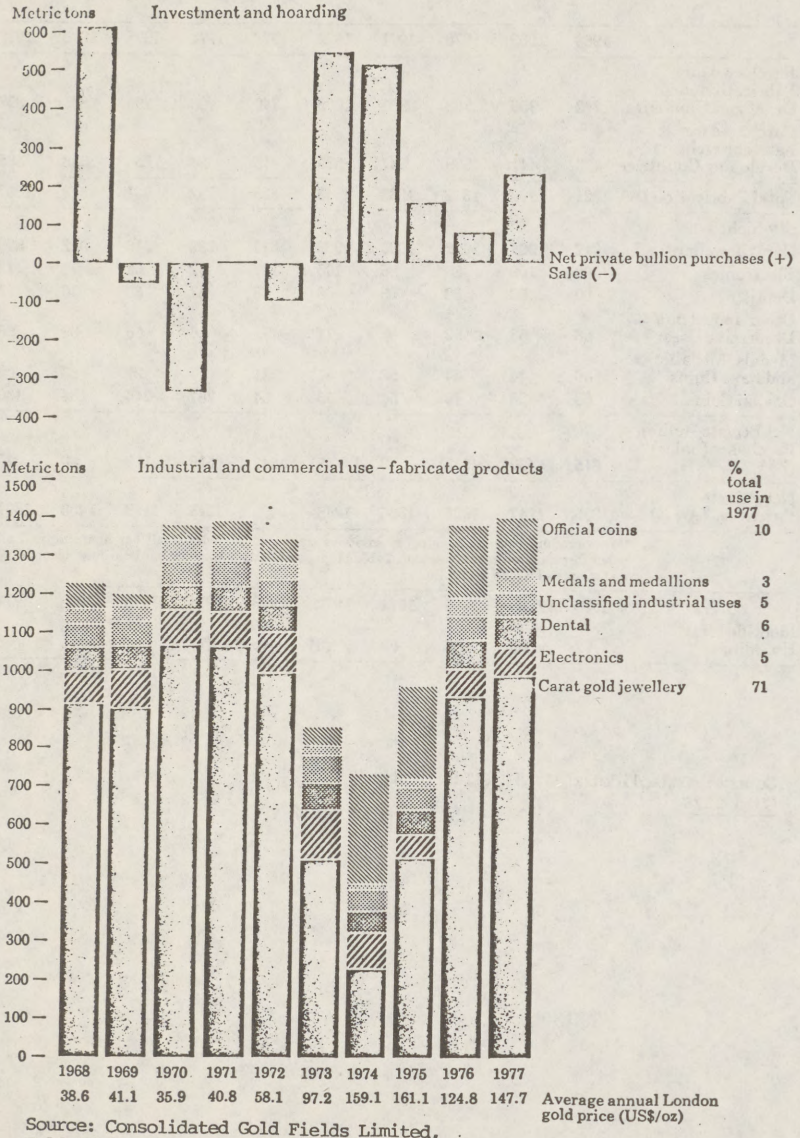
	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Purchased for Fabrication in Developed Countries	742	756	763	836	1008	740	708	705	835	892
Purchased for Fabrication in Developing Countries	479	441	609	547	335	115	24	256	538	505
Total Fabrication (A)	1221	1197	1372	1383	1343	855	732	961	1373	1387
of which:										
Carat Jewellery	912	904	1062	1060	996	513	232	516	932	979
Electronics	82	100	89	86	106	127	92	63	71	73
Dentistry	60	60	59	63	66	68	57	62	76	81
Other Industrial/ Decorative Uses	58	63	62	69	71	72	56	56	63	68
Medals, Medallions and Fake Coins	40	44	54	52	41	21	7	21	47	50
Official Coins	68	26	46	54	63	54	287	244	184	136
Net Private Bullion Purchases (Sales) (B)*	615	(50)	(337)	3	(98)	547	516	159	80	220
Net Private Purchases (A+B)	1836	1147	1035	1386	1245	1402	1248	1120	1453	1607

*Memorandum Item. This category excludes coins, but includes small bar hoarding and all other forms of bullion investment. Table 11, page 34, lists 'identified bar hoarding' by country a summary of which is as follows:

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Identified Bar Hoarding	62	60	88	80	(8)	49	(29)	1	176	68

Source: Consolidated Gold Fields Limited,
Gold 1978

Figure 2 Gold Demand 1968-1977 ATTACHMENT 6
Components of demand in non-communist world



Source: Consolidated Gold Fields Limited, Gold 1978

The CHAIRMAN. Mr. Criswell.

STATEMENT OF GROVER C. CRISWELL, PRESIDENT, AMERICAN NUMISMATIC ASSOCIATION, FORT McCOY, FLA., ACCOMPANIED BY DAVID L. GANZ, LEGISLATIVE COUNSEL

Mr. CRISWELL. My name is Grover C. Criswell, and I am the elected president of the American Numismatic Association, the largest educational nonprofit organization of coin collectors in the world. Accompanying me this morning is David L. Ganz, our legislative counsel.

I have submitted a rather lengthy formal statement, Mr. Chairman, and with your permission, I ask that it be inserted in the record.

The CHAIRMAN. It will be printed in full in the record.

[Complete statement follows:]

STATEMENT OF GROVER C. CRISWELL, JR., PRESIDENT OF THE AMERICAN NUMISMATIC ASSOCIATION, ACCOMPANIED BY DAVID L. GANZ, ESQ., THE LEGISLATIVE COUNSEL, ON S. 2843 ("THE GOLD MEDALLION ACT") AT A HEARING OF THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS, AT WASHINGTON, D.C., ON AUGUST 25, 1978

Chairman Proxmire, distinguished members of the Committee on Banking, Housing and Urban Affairs, and Senator Helms, I am delighted to be here this morning to comment on S. 2843, "The Gold Medallion Act of 1978", a Bill which would authorize and direct the Secretary of the Treasury to produce certain gold medallions which would be utilized at least in part to make American gold reserves that are being sold anyway by the Treasury Department available to the American people.

I am the elected President of the American Numismatic Association, the largest educational, non-profit organization of coin collectors in the world. The A.N.A. boasts 33,000 members, and includes within it more than 1,000 clubs of dedicated coin collectors nation wide. All told, it is our estimate that the Association represents approximately 8,000,000 active coin collectors throughout the United States.

Accompanying me this morning is David L. Ganz, our Legislative Counsel. Mr. Ganz is quite knowledgeable in the field of coinage law and in fact has written an authoritative article on the subject entitled "Toward a Revision of the Minting and Coinage Law of the United States" which appealed in Volume 26 of the Cleveland State Law Review, dated December of 1977 but recently released. In addition, he is the author of more than 1,000 articles over the course of the last dozen years that relate to gold, gold bullion, international law and economics, gold coins, and numismatic disciplines.

We are delighted to be testifying here today as our Association meets at its 87th Anniversary Convention, being held this year in Houston. As the Committee may be aware, the American Numismatic Association was founded in 1893 and since then, the organization has grown by leaps and bounds, such that today it has a large membership of individuals and clubs in every one of the fifty states and territories of the United States, together with dozens of countries abroad. In 1912, the A.N.A. was chartered by Congress for a term of fifty years. In 1962, some of the members of this Committee may recall that Congress chartered the organization to perpetuity.

We do not take this charter lightly and have always tried to live up to its ideals. Back in 1912, the original charter gave the American Numismatic Association a goal of advancing "knowledge of numismatic along educational, historic and scientific lines". In the amended charter of April 10, 1962, the American Numismatic Association was further charged with the responsibility of acquiring and disseminating trustworthy information on topics of coinage, circulation, classification, collection, sales, exhibition, use and preservation.

It is our belief that by being here today, we are significantly advancing the state of the numismatic art, principally because it is our belief that we can help shed some light on the proposal presently before the Committee based upon the collective knowledge of the Association as to gold metals, bullion coins, bullion medals, and like items.

Over the course of the past dozen years, representatives of the American Numismatic Association have frequently been asked by various congressional committees to lend their expertise to the subject of coinage law as it is in the process of being made. We are delighted to help in that process today.

At present there are approximately 266,000,000 troy-ounces of gold located in American reserves. At current market prices, the United States has a commanding $55 billion dollar bullion supply at its disposal. I am certain that the Committee is aware that at the present time, gold is carried officially on the government's balance sheet at the rate $42.22 an ounce. Even though this is being done by virtue of a two-tier gold system, in effect since 1968, the practicality of the matter is that notwithstanding this artifically low price, the government in fact has $55 billion worth of precious metal.

For a number of years, it has been the avowed goal of the Federal Government to remove gold from a pinnacle position in the international monetary system. To that end, the dollar has been devalued twice, so-called "paper gold" or Special Drawing Rights have been implemented by the International Monetary Fund, and, most recently, the government has been selling through the General Services Administration 300,000 ounces of gold on a monthly basis. For its part, the International Monetary Fund has also been selling gold on a monthly basis in quantities of approximately 500,000 ounces. In each instance, the gold sales have been made at the prevailing market prices more or less.

The policy of the Treasury Department in selling off gold at public auction is not new; twice before the initiation of sales in May of this year, the General Services Administration was called upon to sell off a portion of domestic gold reserves. In 1975, the year that American citizens were legally permitted to own gold after a hiatus of 41 years, 1.25 million troy ounces of gold were sold, largely to indicate that the governments view was that gold should be demonetized and have no future storehouse of value. In order to sell the precious metal, bids were received by the government. Probably as a matter of convenience, the decision was made to require bids to be in incremental units of 400 ounces, with a minimum bid of 400 ounces being required. At the present market price of more than $200 an ounce it is elementary mathematics that such a requirement means that a potential purchaser must be willing to advance at least the sum of $80,000 in order to purchase American gold. It is our belief that such a requirement is unjust.

This huge hoard of 266 million troy ounces of gold has an interesting origin that we believe the Committee should be apprised of. The source for the present stockpile does not come from central banks or international transactions, but in large measure comes from American citizens who patriotically turn in the gold coins that they had on hand during the great gold recall of 1933 and 1934.

According to official records gleaned from Treasury Department files and documents most of the gold turned in by citizens following the Presidential mandate was initially set aside, and then melted into 400 ounce bars. In 1935, for example, Treasury records show that $784 million (face value) in double eagles (or $20 gold pieces) were melted by the Mint. The following year, $472 million of the same denomination were placed into the melting pots. During the same 1934–1935 time span, more than $150 million in eagles (or $10 gold pieces) were similarly melted by the Mint from gold turned in by obedient citizens obeying presidential directive.

All told, in fact between 1934 and 1950, the Bureau of the Mint melted down in excess of $1.6 billion worth of gold coin, the large portion of which had been previously circulating. Had President Roosevelt not advocated passage of the Gold Reserves Act of 1934, much of this coin undoubtedly would have remained in private hands.

What the Gold Reserve Act of January 20, 1934 did was to mandate that "all right, title and interest . . . in any and to any and all gold coin and gold bullion shall pass to and are vested in the United States," and to thereafter mandate that "All gold coin of the United States shall be withdrawn from circulation." Rare and unusual collector coins were execpted from the proviso.

The gold coin withdrawn from circulation was compensated with paper currency; a $20 gold piece received a Federal Reserve note of comparable worth, though not real value. And, while the government paid at the rate of $20.67 per onuce of gold bullion, which later moved upward to $34.45, the official price of gold was raised to $35 an ounce (causing a defacto devaluation of the dollar).

Gold coins, of course, have a bullion value separate and apart from their nominal face value or worth. So, for example, a double eagle which contains .9675 troy ounces of gold is worth considerably more than $20 if the price of gold rises to anything above $20.67 an ounce.

When the government recalled the gold, it purcased gold coins at the rate of $20.67 an ounce, or more particularly, at the coin's face value. After the coins had been recalled, the dollar was devalved and the price of gold altered from $20.67 an ounce to $35 an ounce. The central result of this is that Americans gave a certain measure of profit to their government. Today, as the government begins to sell off its gold stock in an attempt to prove that gold is no longer part of the monetary system (the reason that the gold was originally taken over by the government was because it was an overwhelming part of the monetary system) most Americans are being denied the opportunity of acquiring gold.

The sale of bullion in 400 ounce increments does correspond to the average size of bricks that are stored at the Fort Knox Bullion depository and at the New York Assay Office. But quite clearly to make a purchase of 400 ounces at a cost of $80,000 or more is beyond the reach of most Americans.

Purchasers at the U.S. Government sale, as well as those of the International Monetary Fund, have tended to be institutional investors as well as dealers in precious metal who resell the metal presumably in smaller incremental units for a profit, or simply place it in storage against a future rise in value. For the most part, the very individuals who contributed most of the gold—the American people—are cut out of the high stakes.

Between 1934 and December 31, 1974, Americans were formally prohibited by law from owning gold bullion and even coins that were without numismatic value. The arguments made by the Treasury Department and Federal Reserve officials who supported such a ban were that gold ownership by Americans would prove disruptive to the international monetary system and would tend to show that the nation was not committed to demonetization of the precious metal.

While still Chairman of the Federal Reserve, Dr. Arthur Burns commenting in a letter to Rep. Wright Patman, then Chairman of the Banking Committee stated that he thought that substantial disruption of the balance of payments would result from any private gold ownership. The complete text of his letter is attached to this statement as Exhibit 1.

I would also like to call the Chair's attention to a letter written by the Honorable Paul A. Volcker, now President of the Federal Reserve Bank of New York, who in 1973 as the Under-Secretary of the Treasury for Monetary Affairs, which comments on an attempt made five years ago to first permit private gold ownership by American citizens, and secondly to permit issuance of a special gold coin in commemoration of the Bicentennial of the American Revolution.

The reason that I am bringing both Dr. Burns and Mr. Volcker's statement to the attention of the Chair is that each comments in its own way on the position of the United States Government as it has existed for a number of years relative to ownership and control of gold. Although Dr. Burns is no longer Chairman of the Federal Reserve, and Mr. Volcker is no longer Under-Secretary of the Treasury, the views expressed in each of those letters are remarkably similar to responses received by various members of Congress who are requesting information at the present time as to the Administration position concerning the issuance of one ounce and one-half ounce gold medallions which would be issued as part of any sales of gold by the Federal Government. The similarity is so striking that I must confess that I have wondered, at least in part, whether four years after private gold ownership has been reality without deleterious affects, the Treasury has yet recognized that there is nothing inherently bad about individual American citizens owning gold.

Private gold ownership was permitted as part of a legislative compromise in 1974, and in the time since then, Americans have proved to be just as interested in gold as their European counterparts—though none of the international monetary distress which has subsequently resulted can be traced to the American thirst for gold.

Despite this, all American gold sales have been aimed at the large bullion. The result has been a loss to the taxpayer of substantial revenue and, there has been a substantive adverse impact on the American balance of payments and there are substantial political consquences of international impact.

In the absence of a small-size coin or medal which the average citizen can acquire from domestic supply, most, rather than do without, have begun to purchase foreign gold coins. Last year, more than 1.6 million ounces of gold in coin form were imported into the United States. Of these, 1.1 million pieces were krugerrands, manufactured and marketed by the South African government. In June and July alone of this year, more than 540,000 krugerrands were imported. If this trend continues, it is likely that approximately 2 to 3 million krugerrands (each one representing one ounce of gold) will be imported into the United States this year. And, these are the coins that we know are being imported. Surely, these are many, many more. But using just these statistics the amount of American dollars flowing abroad as a result must constitute the market price of gold plus eight percent—the premium charged by the governments for purchase of "bullion" coins.

At the rate of 2 or 3 million krugerrands sold in the United States, $400 to $600 million in American funds at a minimum is going abroad—and those funds would be utilized to help fund the apartheid government of South Africa.

Assuming that the krugerrand quotient remains a constant, and that other so-called bullion pieces increase, it is possible that $600 million in American funds would go abroad—all because the U.S. government does not want to strike gold medals, or coins, in small incremental units of one half, or one ounce. It is the firm belief of the American Numismatic Association that the legislation introduced by Senator Jesse Helms, S. 2843, deserves the strongest measure of consideration. The rationale for the legislation is multifold. First, it addresses the balance of payment argument. Second, it has positive domestic economic effect, for the multiplier effect of spending dollars in this country, as opposed to abroad, is doubly beneficial. Third, it in effect denies $600 million or more per year in assistance to the South African government. Fourth, it returns the gold to the people who originally gave it to the government, namely, the American people. Finally, it raises substantially more revenue for the government than its own sales plan can or will do.

According to the Treasury plan, 1.8 million troy ounces of gold will be sold from American reserves. Assuming that the price of gold remains at $200 an ounce, this would mean a gain to the Treasury of $360 million.

If the same gold were refined and made into metals of one ounce and one-half ounce in weight, and a small premium charged over and above the free-market price of gold (perhaps five percent for the larger one ounce medal, and eight percent for the smaller, one-half ounce medal) the government would gain an additional $30 million in revenue over the course of the sale (provided that the price of gold remained at $210 an ounce. If the price rose, the profit would, of course be even higher).

Briefly, I would like to address myself to the several objections raised by the Treasury Department to the issuance of gold medallions. First, the Treasury states the government should not permit the erroneous impression that we created that it cannot or will not take necessary steps to combat inflation and that the public therefore needs to buy gold as a hedge against inflation. The Treasury then adds that "the seriousness of our commitment to that program (to end inflation) could be undermined by the minting and sale of gold medallions by the U.S. Government as a hedge against inflation."

The view of the Treasury Department is in serious error if it believes that gold medallions minted under the terms of the Helms bill are being sold by the United States Government to the public combat anybody's inflation or balance sheet other than that of the government itself. I call to the attention of the Chair a remarkable article written by Clyde H. Farnsworth of the New York Times in the May 24, 1978 issue in which he states in part that "though he is not in the Administration, the former Chairman of the Federal Reserve Board, Arthur F. Burns, was instrumental in getting the Administration to act" in selling off portions of the gold reserves. "He argued that gold sales were needed to help the dollar until new energy, anti-inflation and fiscal policies take effect."

There is nothing in the Helms Bill that would require the Treasury Department to mint and issue gold medallions. What the legislation provides is that if the Treasury insists on selling off a portion of the gold reserves, that the first 1.5 million troy ounces of the gold be utilized to make that portion of the gold available to the individuals who contributed that gold to the stockpile—the ordinary American citizen. Nothing would prevent the same corporate and other multinational entities who are presently purchasing American gold from doing so in this form. They, like anyone else, would be able to—but the goal, obviously, is to make the gold available to the American people.

The second objection of the Treasury Department is that "the government should not take any action to encourage U.S. citizens to invest in gold, nor to suggest that gold is a sound way for U.S. citizens to invest their earnings."

It is our opinion that merely permitting individual citizens to purchase gold does not indicate that the government is encouraging them to invest or own gold. This is quite similar to the position advanced by the Treasury prior to the change in gold ownership regulations wherein the Treasury had argued that to permit

American citizens to buy foreign gold would be to encourage them to do so, and indicate that it is the government's opinion that gold is a sound way for American citizens to invest their capital.

Gold, like any other asset of last resort, is merely a storehouse of value based upon the projected or estimated worth of its purchasers. Just as the Treasury Department sold silver coins and silver medals, and gold medals in connection with the Bicentennial Commemoration (pursuant to Congressional authorization therefor) it is our belief that the Helms bill would simply permit a continued issuance along the same lines. In 1976, the Treasury was surely indicating to individuals that purchasing gold or silver medals for the Bicentennial was a sound investment. We are also confident that in selling silver commemorative coins in connection with the Bicentennial the Treasury was similarly not taking that position of advocacy.

The third point that the Treasury raises by way of objection is that the proposed legislation would be contrary to U.S. policy to reduce the monetary role of gold. Nothing could be further from the truth. A medal is not a coin. A coin has legal tender characteristics, a fixed valuation, and is governed by Title 31 of the United States Code as to its manner of production and otherwise. Medals, no matter what metal they are struck in have an intrinsic worth that is strictly limited to the bullion price of its base metal content. In the case of silver, copper, or gold, this would be at the market price on any particular day.

The Treasury Department contends that the current U.S. government policy is to sell gold to help meet import demand and further reduce the monetary role of gold. It is the opinion of the American Numismatic Association that by not coming to grips with a major influx of South African krugerrands—which will probably aggregate 3,000,000 pieces this year, the Treasury is not moving at all to stem any influx. Further, it is our understanding that later this year or early next, Canada will likewise introduce a gold bullion coin in one-half and one ounce increments. It is our belief, based upon our experience in such matters, that a substantial number of American collectors will move to acquire these coins further exacerbating the situation. It is our belief, however, that were a U.S. bullion medal introduced that the South African krugerrand sales would plummet and that, possibly, there might not even be a market for a Canadian type.

Finally, Mr. Chairman, I would ask that the Chair place this full statement together with all of our Exhibits (some of which have not yet been referred to but upon which this presentation has been based) be placed in the official records of this Hearing.

I would like to thank the Chair for the opportunity of appearing before you today, I would like to again stress the position of the American Numismatic Association in support of the Helms Gold Medallion Act of 1978, and would be pleased to answer any questions at this time.

EXHIBIT 1

[Extracted From H.R. Rep. No. 93–391 (1973)]

LETTER FROM FEDERAL RESERVE CHAIRMAN

The following letter was received from the Chairman of the Board of Governors of the Federal Reserve System, the Honorable Arthur Burns, on the subject of gold as it relates to this bill:

CHAIRMAN OF THE BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM,
Washington, D.C., July 17, 1973.

Hon. WRIGHT PATMAN,
Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I am writing in regard to legislation authorizing issuance of coins to commemorate the Bicentennial of the American Revolution, which I understand your committee will consider on Thursday of this week.

In acting on a companion bill last week the Senate adopted amendments which would (1) require issuance of 60 million gold coins, (2) terminate regulation of private transactions in gold by January 1, 1975, and (3) provide that any sale of gold by the Treasury should be at a price no lower than the average market price in the previous month. These amendments, if enacted into law, would tend to raise the market price of gold at a time when we have been experiencing a sharp speculative runup in that price. The amendments would thus tend to reinforce speculative forces that have worked against efforts to restore price stability in this and other countries. In addition, reduction of U.S. international monetary reserves by issuing gold coins could further erode confidence in the dollar at a time when it is already seriously undervalued in exchange markets.

Moreover, enactment of these amendments would adversely affect negotiations now underway regarding the future role of gold in a reformed international payments system. The need to expedite these negotiations has been recognized by your committee in H.R. 6912, amending the Par Value Modification Act. It would be most regrettable if progress toward monetary reform were further delayed by the confusion regarding this Government's gold policies that I fear would ensue from adoption of the Senate amendments.

In short, I believe this is a particularly inopportune time to enact legislation that would tend to increase the demand for gold, thereby risking a further drain on our balance of payments. With regard to terminating restrictions on private ownership of gold, your committee and the House have agreed that this step should be taken when it can be done without adversely affecting the international monetary position of the United States. I hope that you will hold to that position.

With warm regards,

Sincerely yours,

ARTHUR F. BURNS.

EXHIBIT 2

[Extracted from H.R. Rep. 93–391 (1973)]

The following letter was received by the committee from the Under Secretary of the Treasury for Monetary Affairs, the Honorable Paul A. Volcker, relating to the proposal subsequently rejected in the committee to require the issuance of a gold coin for the Bicentennial:

THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFAIRS,
Washington, D.C., July 13, 1973.

Hon. WRIGHT PATMAN,
Chairman, Banking and Currency Committee,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Your committee is scheduled to consider in the near future H.R. 5244, a bill proposed by the administration to provide a new design and date on dollars and half-dollars emblematic of the Bicentennial of the American Revolution. This bill would significantly contribute to the celebration of the birth of our Republic—certainly the greatest moment in the history of our country.

It would be unfortunate if the laudable purpose of this bill would be obscured by unrelated issues involving gold policy. As you know, the Senate recently passed S. 1141, the companion bill to H.R. 5244, with various amendments concerning gold. One of the amendments directs the Secretary of the Treasury to issue special gold coins during the Bicentennial period; the second terminates the regulation of private gold ownership as of January 1, 1975; and the third amendment would restrict the authority of the Secretary of the Treasury to sell gold in the private market by requiring that the price be not lower than the average private market price for gold in the month preceding the date of sale.

As a general observation, we doubt the wisdom of enacting any legislation at this time which pertains to the private ownership of gold—whether in the form of bullion or coin. Under prevailing conditions, it would, in all probability, have a damaging effect on the already uncertain monetary situation. Congressional action requiring the minting of gold coins would be particularly unfortunate. It would give rise to unwarranted speculation and uncertainty on the part of the international financial community as to the intentions of our Government with respect to the role of gold in the future monetary system. The issuance of gold coins by the U.S. Government would be viewed abroad as an attempt to reemphasize the monetary importance of gold. This would be especially regrettable in light of our Government's firm position that the role of gold should be diminished in the international monetary system.

Furthermore, the issuance of gold coins, in our view, would be a misuse of the Nation's gold reserves. The annual industrial demand for gold in the United States now totals in excess of 7 million ounces and is steadily rising. About 80 percent of this total must be supplied by imports of gold from abroad. At present prices, this has an adverse effect on our trade balance of over $600 million a year. Under these conditions, if gold were to be taken from our monetary stocks, it would make much better sense to make gold available to American industry from our stock at the market price than to divert the gold for the minting of coins.

Finally, because of the considerable disparity between the monetary and the private market price of gold, it would be impossible to produce a coin of a quality which would appropriately commemorate the American Revolution and, at the same time, could be sold at prices within the means of the average American. If the gold content of the coins were valued at the monetary price, there would be a very strong incentive for the holders to melt the coins down into bullion. To avoid this, the coins would have to be priced high enough to reflect the market value of the gold. In this case, however, the coins would be within the means of only a small and affluent segment of the public. On the other hand, a coin that could be minted and sold at prices which would make them accessible to the average American would either contain a negligible amount of gold or would be very small in size. In either event, we do not believe that it would be an impressive commemoration of such a historical occasion as the Bicentennial.

Turning to the second amendment, we consider a serious mistake any legislation which would establish a definite date for the removal of regulations on private gold ownership. It is essential to effective progress on monetary reform that the timing of the move should be left for determination by the President when he finds that the elimination of regulations would not be detrimental to the overall monetary interests of the United States. This is the position adopted in the par value modification bill passed by the House and now pending in conference.

The final amendment restricting the present flexibility of the Secretary of the Treasury to sell gold on the private market could also have seriously adverse consequences. We have been strongly urged by Members of Congress and the public to undertake limited sales of gold from our gold stock at the prevailing market price. A provision which would establish a floor price for such sales would make it more difficult to reach a reasonable understanding on this issue with other monetary authorities. Moreover, it would effectively prevent any sale of Treasury gold at certain times—for example, when the market price of gold is declining. This provision would thus sharply curtail the present authority of the Secretary of the Treasury to effectively use our gold reserves in the national interest.

In summary, I believe that legislation authorizing the issue of coinage to commemorate the Bicentennial of the Republic should not be encumbered with amendments which would adversely affect the international monetary objectives of the United States.

Sincerely yours,

PAUL A. VOLCKER.

EXHIBIT 3

[Extracted From House Report No. 93–391, 93d Cong., 1st sess. at page 13 (1973)]

INDIVIDUAL VIEWS OF PHILIP M. CRANE

In the Committee on Banking and Currency, I introduced an amendment which would provide for the Secretary of the Treasury to mint up to 60 million commemorative gold coins. The amendment was defeated in committee by a vote of 15–7, but I intend to bring it before the whole House of Representatives. The language of this amendment is identical with that which was offered by Senator Hatfield and adopted by the Senate.

It has been argued by Under Secretary Paul Volker as well as the chairman of the Subcommittee on Consumer Affairs:

1. That the minting of gold bicentennial coins would be viewed abroad as an attempt to reemphasize the monetary importance of gold. This is an untenable argument. Bicentennial gold coins, as the Treasury acknowledges, would have to be priced high enough to reflect the market value of the gold. These coins would not circulate as coin-of-the realm. They would obviously be solely commemorative.

2. That if coins sell at the market value of the gold, only a small and affluent segment of the public could buy them. This argument is an absurdity. We are talking about a one dollar gold coin which, including the worth of the gold at market price, the Treasury Department testified would sell in the neighborhood of $35. Surely this price does not shut out the small investor. A perfect example is the sale of U.S. bonds. Since they were initially offered for sale in 1941, 3,551,000,000 bonds have been sold. The smallest denomination is $25.00. 134,155,000 bonds were sold in fiscal 1973 alone.

3. That the issuance of these gold coins would interfere with our balance of payments. This is not a valid argument. There would be no need to go to the open market for our gold supply. Using the Treasury figure of .13 ounces of gold per coin, the Treasury could easily meet this need. The return to the Treasury from the sale of these coins would be approximately $1.5 billion.

4. That there will be a stalemate in conference with the Senate over the "gold question." There can be no stalemate on the issue if House and Senate language coincides.

I intend to introduce language in the House which conforms to the Senate provision. Adoption of this amendment should expedite work on the bill when it reaches the Conference Committee.

Exhibit 4

Gold Sold to Defend Dollar—U.S. Auctions 300,000 Ounces

(By Clyde H. Farnsworth)

Washington, May 23.—It could have been tin, tungsten, chrome, old desks, chairs, typewriters, used jeeps, motorcycles or any other Government property the General Services Administration sells from time to time to trim surpluses and recoup some Federal expenditures.

This time it was gold—300,000 ounces of the metal Karl Marx said was good enough to use only as lining for the lavatories of the world.

The gold, which lines the vaults of Fort Knox, was sold for about $180 an ounce, mainly to European banks.

In futures trading, prices of gold and other precious metals futures shot up after the auction's outcome became known and word spread of the $180 bids. Gold futures closed up $1.90 to $2.70 an ounce.

Dressed in a gray flannel suit, Readus Long, director of stockpile services for the Federal Preparedness Agency of the G.S.A., opened the Carter Administration's first gold auction at 11 A.M. in the auditorium of a converted Government warehouse now known as G.S.A. service center No. 3 in southwest Washington.

To the rear was an American flag. Next to Mr. Long on the stage was his assistant, Jane Bernard, in a polka-dot dress, who read out the sealed bids from 59 prospective purchasers—mostly banks from the United States and Western Europe wanting to supply customers.

Individual investors were discouraged from the auction because the smallest amount of gold one could buy was a 400-ounce bar, today worth more than $70,000. A $10-an-ounce deposit was required just to submit a bid.

The sale by the Treasury of some of the 277 million ounces the United States keeps in Fort Knox to show currency speculators it is serious about defending the value of the dollar in international markets, Government officials said.

The sales tend to reduce the amount of excess dollars in the world, thereby helping steady their value. In addition, they reduce the American trade and fiscal deficit. Release from the gold stockpile means the United States will import less gold, or export more. Proceeds go into general Treasury revenues, slimming the budget or fiscal deficit.

Today's was the first of six monthly auctions expected to bring in a total of some $300 million. The importance is more psychological than practical, however, since the trade deficit is running at an annual rate of more than $25 billion and the fiscal deficit at more than $50 billion.

It was not exactly the type of auction that one attends to buy a picture or an antique commode. The bidders did not know for sure whether or not they had bought any gold until late in the afternoon, following a Treasury determination.

There were 12 successful bidders, at prices from $180.01 to $182.35 an ounce. As these prices were higher than the London afternoon "fixing" of $179.75, the results were considered bullish by gold traders.

The United States has insisted all along that it does not want to disrupt the gold market. In addition to 300,000 ounces monthly of American gold sales, the market also has to absorb 470,000 ounces monthly of gold offered by the International Monetary Fund. The 134-nation monetary agency has just trimmed the size of its monthly sales from 525,000 ounces. It wants the money for a trust fund for poor countries.

Morris Cannon of San Antonio, one of the few individuals participating today submitted the highest bid. Three European institutions were at the low end—the Union Bank of Switzerland, the Swiss Bank Corporation and the Dresdner Bank of West Germany.

The average price was $180.38 an ounce. Gross proceeds from the sale were $54.1 million.

Altogether 44 bidders submitted 212 individual bids for 1.36 million ounces.

There were 14 high bidders, whose offers ranged between $182.35 and $180.01 an ounce.

The G.S.A., acting for the Treasury, has sold gold twice before—both times in 1975, the year American citizens were legally permitted to own monetary gold again for the first time in 41 years.

The sales of 1.25 million ounces in the two auctions that year—both sales at prices around $15 an ounce below the current market—were intended to demonstrate Washington's belief that gold should be demonetized, or, in other words, should have no future monetary use as a store of value.

The sales came after long arguments with the French, who felt that gold should once again become the pivot of the monetary system. A compromise, in effect, left every country free to do with gold as it pleased.

Internal divisions within the Carter Administration delayed a decision to continue the policy of periodic sales. Those opposed to sales contended that gold should be considered an ultimate asset to be retained in case world economic conditions deteriorated.

Sympathy for this point of view was expressed today by about a score of demonstrators who marched outside the G.S.A. building wearing black armbands, which they said were in mourning for the loss of the stability that gold represents. They also were mourning, as one of the demonstrators put it, "the death of the once-almighty dollar."

Though he was not in the Administration, the former chairman of the Federal Reserve Board, Arthur F. Burns, was instrumental in getting the Administration to act.

He argued that gold sales were needed to help the dollar until new energy, anti-inflation and fiscal policies take effect. The dollar has strengthened considerably in the currency markets since the decision was announced by the Treasury April 19.

Here is a list of the successful bidders today and the amounts they acquired:

Swiss Bank Corporation, 96,400 ounces; Dresdner Bank, 97,600 ounces; Union Bank of Switzerland, 50,000 ounces; Sharps, Pixley of London, 18,000 ounces; N.M.R. Metals, Inc., 13,200 ounces, and Merrill-Montagu, 4,800 ounces.

Also Swiss Credit Bank of Zurich, 2,000 ounces; J. Aron of New York, 10,000 ounces; Monex International Ltd. of Newport Beach, Calif., 400 ounces; Samuel Montagu of London, 3,600 ounces; Johnson Matthey of London, 3,200 ounces, and Morris Cannon of San Antonio, 800 ounces.

Mr. CRISWELL. I'd like to now just address myself to the six issues that you have indicated by letter to me were of key concern to the committee.

Initially, you ask who is purchasing gold bullion, coins, and medals.

As to coins and medals. I can answer from firsthand experience. In large measure, coin collectors and investors—or serious numismatists—are maing the market.

Right now, at this minute, our organization is in Houston celebrating its 87th anniversary convention. Some 20,000 collectors from every State in the Union will be there to buy, sell, and trade coins and many gold coins and medals will be among them.

But these are numismatic coins, not bullion pieces.

The difference between the two has to do with the rarity, condition, and other diverse factors.

There is a sizable market for so-called bullion coins which sell largely based upon the fluctuating price of gold. I would estimate that several hundred million dollars per year in bullion coins are sold in this country; a significant portion of this figure is made up from Krugerrand sales. I might add also that Canada intends to mint a bullion gold coin in the near future.

The South African Government presently strikes the Krugerrand, which is equal to 1 troy ounce of gold, for export. It helps their balance of trade, balance of payments, and, of course, in maintaining apartheid through domestic economic success.

In June and July of this year, I understand that more than 550,000 Krugerrands were imported into the United States. In May, of course, the General Services Administration sold off 300,000 ounces of Government gold. On balance, it would appear that we are importing far more gold than we are selling off. Now they are going to start selling 750,000 ounces. Perhaps there will continue to be more coming in than going out.

On the last page of my prepared statement, exhibit 4, an article in the New York Times reports on who purchased gold at the last Government auction. Except for one Texan, who bought 800 ounces, all of the purchasers were corporate entities, and many were of foreign origin. The reason for corporate purchases as opposed to individuals is quite clear—the high cost of purchasing gold in the 400-ounce increments that GSA requiries for sales. At $200 an ounce, an $80,000 minimum purchase is necessary.

So, for Americans who wish to buy gold, for whatever reasons, there are essenially only two choices—numismatic items with collector worth, or bullion pieces such as the Krugerrand, the Mexican 20- and 50-peso gold coins, or the Austro-Hungarian 100 corona pieces.

Then there are the collector gold coins which are purchased for their bullion value and numismatic worth. Our own $20 gold piece is a case in point. The coin contains 0.9675 troy ounce of gold, which at $200 an ounce prices, means a base worth of $199, more or less. Typically, though, a double eagle, or $20, will sell for $318 or so at the present time. That "spread" between the bullion value and the selling price is what's known as numismatic worth.

The cause of the Krugerrand's success is hard to measure, except to say that it is a precise and exact weight which makes price changes easy to calculate. It is not widely counterfeited or reproduced, and makes no pretense about having a numismatic worth. The backing of the South African Government, together with a massive advertising campaign, have obviously not hurt sales, either. Certainly it is easier to deal with 1 troy ounce than a sovereign weighing 0.2354 troy ounce. It's also easier to market and sell a governmental issue than it is a private issue of 1 ounce or more.

For its part, Treasury gold sales seem to have stimulated a widespread interest in acquiring gold. When individuals hear that thousands of ounces of gold, worth millions of dollars, are being sold, it is only natural for them to want to acquire some, too. Given the widespread publicity attendant to the Krugerrand, given the "fear" on the part of a noncollector in acquiring a coin whose gold content is expressed in four and five decimal fractions of an ounce, and perhaps because there is no good alternative American bullion piece available, Krugerrand sales have soared.

You have also indicated an interest, Mr. Chairman, in learning not only what it would cost to produce a medal such as that proposed by the Helms bill. I am advised by the mint that it would cost about $2 per medal. Altogether, this would be less than 1 percent of the bullion value.

I would guess that if Treasury made 1.5 million of these pieces each year, there would be a complete sellout. And, assuming that Krugerrand sales would otherwise remain constant, they would be reduced by that level.

The issuance of the medals, of course, would have no effect on gold sales at all because the bill is conditional. It does not require that gold be made into medals unless the Treasury decides the sale of gold. The balance of payments position, overall, would probably improve because fewer Krugerrands would be imported; perhaps that could save $500 million a year. Treasury revenue, of course, would be higher by at least 6 percent than from present gold sales and perhaps more because there would be a markup in price by at least that amount. The Krugerrand presently is sold to individuals at approximately an 8-percent premium over the spot price of gold; in bulk, 3 percent over spot. If collector versions are sold in uncirculated or proof, there would be that premium revenue added.

In summary, Mr. Chairman, we support the Helms' bill on five grounds.

First, it helps the balance of payments of this country.

Second, the multiplier effect from spending money domestically has clear economic benefits.

Third, it has the effect of denying $600 million per year in assistance to South Africa.

Fourth, it returns gold to the people who gave it to the Government in the first place—the American citizens. Even though present gold, as I understand from the earlier statement, is not the same gold as that which American citizens were required to turn in in 1934, billions of dollars were then taken from individuals, and should now be returned.

Finally, it raises more money for the Government than its own plan does.

I thank you, Mr. Chairman, for giving me this time to give this brief statement, and I will be happy to answer any questions.

The Chairman. Thank you very much, Mr. Criswell.

Mrs. Currier.

STATEMENT OF ELIZABETH B. CURRIER, EXECUTIVE VICE PRESIDENT, COMMITTEE FOR MONETARY RESEARCH AND EDUCATION, GREENWICH, CONN.

Mrs. CURRIER. I am Elizabeth Bricker Currier, executive vice president of the Committee for Monetary Research and Education, known as CMRE. I thank you for the opportunity to appear here today to speak on behalf of the Gold Medallion Act. The comment I shall make are my own opinions and do not represent any opinions of the CMRE. It might be of interest, however, to explain a little about CMRE. The general purpose of the organization is to provide greater public understanding of monetary processes, domestic and international. CMRE conducts monetary conferences and publishes tracts on such issues as banking, exchange rates, inflation, Eurodollars, the "money illusion," and others.

The subject of inflation, its political, social, and economic ramifications, is not a new one to the members of CMRE. From the lessons of history, they are familiar with the causes of inflation and the course it invariably runs whenever a nation's monetary system is out of control.

Mr. Chairman, I shall confine my remarks to the Gold Medallion Act stating my support for the bill—given the fact that the Treasury is committed to a program to sell gold.

I recognize that in inviting me here, you requested testimony dealing with gold sales in general and the effect they may have had on exchange rates and balance of payments. You also requested similar information regarding the possible effects the gold medallion sales might have in these areas. In my judgment, the amounts involved in the gold sales, both in quantity of gold sold and dollars expended, are so small in relation to the balance of payments deficits, that they are not germane to that problem. If we assume that the Treasury sells the entire 4.8 million ounces now being sold, and scheduled to be sold, at, say, an average price of $200 an ounce, the total receipt would be $960 million. In 1977, the U.S. trade deficit was $26 billion, or an excess of imports amounting to $70 million a day. On the basis of the 1977 deficit, the receipt from gold sales would cover only 2 weeks of the deficit. Similarly, the small amounts of gold involved could have little to do with the unsettled conditions in exchange rates, and the sales would seem to have had a negligible effect on the dollar's decline against foreign currencies.

Thus, I believe I can contribute more by addressing my comments to the real meaning of the Gold Medallion Act, which is a domestic issue, fundamentally a moral issue. In a certain sense, my comment will relate to your reference to "inflation in the United States," not so much to aggregate economic figures and the national problem, however, but rather to what some individual Americans are going to do about inflation, indeed, what they are doing about it.

In my opinion, the Treasury's observation that allowing the average citizen to purchase gold coins from the U.S. Treasury could undermine the seriousness of the administration's commitment to its comprehensive anti-inflation program is irrelevant.

I believe what is really involved are the wishes and actions of individual Americans who have voted in the marketplace—voted with their own money—that they wish to buy gold coins. They are buying them now—Austrian kronen, Krugerrands, Mexican pesos, et cetera—and they may be expected to continue to do so unless and until they believe there are valid reasons for them to have more confidence in the dollar.

As the gold sales are now conducted, the average American citizen is excluded from purchasing gold from his own Nation's Treasury by virtue of the approximately $80,000 required to buy a bullion bar of 400 ounces.

In his comment on this bill, Secretary Blumenthal states that the U.S. Government should not permit the erroneous impression to be created that it cannot or will not take the necessary steps to combat inflation and that the public therefore needs to buy gold as a hedge against inflation. In his written statement on this bill, Prof. G. Carl Wiegand has outlined the magnitude of our inflation. He writes:

> . . . thanks largely to the huge federal deficit, the money supply (M_2) increased between 1970 and 1977 by more than 90 percent, while the output of goods and services (the real GNP) rose by only about 20 percent; and a growing percentage of the GNP consists of non-consummable forms.

The result has been that the cost of living index has risen by about 60 percent. Prof. Wiegand concludes: ". . . this situation continues unchanged; and the people know it. Hence, the search for an inflation hedge."

With inflation now back to double-digit levels—CPI hit 10.8 percent in July—and with the administration's forecasts for an inflation rate of 7.2 percent, more than a percentage point higher than its estimate in January, we have what the Wall Street Journal reported as Americans losing faith in the future, frustrated and fearful. [WSJ, Aug. 23, 1978]

Here are the two points I wish to emphasize—inflation is a problem governments must handle, or stop, by careful and frugal fiscal and monetary policies. What we are concerned with in this bill is what individual Americans may wish to do in the meantime to protect themselves from the inflation already underway.

Last year, according to Department of Commerce figures, Americans spent $250 million in acquiring foreign gold coins. This year with the fear of inflation increasing, purchases are expected to be double that amount. Sales are projected to reach 3 million ounces.

If Americans can buy only foreign coins, they will do so—and there will be more and more foreign coins available, Canadian and Australian, as well as Mexican, Austrian, and South African.

Will this be an unsound investment, subject to volatile swings? Essentially, investments are a matter of individual circumstances and preference. What is involved here is the right of individual Americans to decide for themselves under a free market.

Professor Donald Kemmerer has stated in his comments on this bill:

> If you really want to know what has been volatile, just compare what a $20 gold piece (about an ounce of gold) has bought at various times in the last 45 years with what a $20 bill has bought. It is not gold but paper money that has been volatile. Indeed the gold piece had held its value very well while the $20 bill has lost 83 percent of its buying power in those 45 years.

One remarkable formula to remember in considering the stability or instability of the dollar in the future is that by dividing the rate of inflation into the number 70, one can ascertain the number of years before the dollar will lose half it value. With at least 7 percent inflation this year, one can figure that in a brief 10 years, the the thrifty American saver will lose half the purchasing power of his savings. Although few Americans may know this formula, they do feel the uncertainty of the future. They are already seeking alternative stores of value.

Mr. Chairman, the opposition seems to fear what the people will think if gold medallions are produced. It would seem more important to respond to what they already have indicated they do want. As history records, government may try to frustrate the desire of the people for safety, but the attempts are usually in vain.

If sound attitudes toward government are truly desired, producing these medallions would clearly demonstrate that government is indeed, responsive and responsible.

The CHAIRMAN. Thank you very much, Mrs. Currier.

Dr. Bernstein, you gave a very interesting calculation to begin with. You pointed out if somebody should buy gold and pay for the manufacturing and minting and pay the sales tax and then calculate the implicit interest, they'd have to raise the price to $265 an ounce.

Mr. BERNSTEIN. Over a 2-year period.

The CHAIRMAN. Over a 2-year period to come out. Now of course, in the long run, if they hold on to that gold, they don't have to pay that sales tax again or the minting and so on. There the interest rate is the factor. So what you have to assume is that inflation or the price of gold will be at a greater rate than the rate of interest. All the testimony we have before this committee is that you can expect high rates of interest to continue as long as you have inflation. You talk about the inflation premium.

Now is it true, according to your calculations, that as long as you have a reasonably sophisticated capital market that you're going to have a rate of interest which is likely to be somewhat higher than the rate of inflation, long term?

Mr. BERNSTEIN. Yes. I would like to point out, Mr. Chairman, that there are many measures—price measures of inflation—and the appropriate measure is probably not the Consumer Price Index. It's probably the implicit price deflator of the nonfarm domestic product. I want to keep out agriculture because it moves up and down, farm prices. I want to keep out import prices. By and large, that's a little bit less ordinarily than the Consumer Price Index, but the difference is so small it can be negligible.

For example, from 1958 to 1965 the Consumer Price Index rose an average of 1¼ percent. That's really monetary stability because if we had taken the wholesale price index of manufactured goods in the United States there would have been a slight decline over this period, or at least no change.

Now I think it is correct that by and large the interest rate in the market, the long-term rate, will reflect the long-term expectations on inflation. It isn't this year's inflation. It isn't next year's inflation. When you buy a 20-year bond with an interest rate marked on it, you're already making a projection of what your expectations are for 20 years.

For short periods the interest rate—I'm talking about money market rates now—isn't necessarily related to inflation except in a derivative way, in this sense that there is a substitution in borrowing and lending between long and short, but actually the short-term rate is determined pretty much by monetary policy.

The CHAIRMAN. Well, the interest rate is simply a convenient basis for comparison. It's very hard to dispute. Mrs. Currier, I think made a very powerful, impressive, and interesting statement here, especially when she took the $20 bill and said if 45 years ago you had put your money in a $20 bill and kept it in cash, obviously you would have been able to have a $20 bill, but a $20 gold piece would be worth twice as much. The $20 is the same monetary value, but a greatly depressed real value.

We made a little calculation, and if instead of putting a $20 bill in your mattress, you put it into a 6-percent investment, that would now be worth $275.27, and it would beat gold just on the basis of that 6 percent.

Mrs. CURRIER. Well, you have to pay some taxes on your interest too. There is a consistent loss through the depreciation of the money and taxes. You do pay taxes on your savings.

Mr. BERNSTEIN. You pay taxes on your gold coin too if you have a capital gain when you sell it.

The CHAIRMAN. The same way.

Mrs. CURRIER. I respectfully have to question the interest rate assumptions made as well as some of the conclusions reached. In reference to the statement that if one had put his $20 bill into a 6-percent investment 45 years ago it would be worth $275.27 today—a higher figure than an ounce of gold—we should keep in mind that we are talking here about the little man trying to protect his savings, not about sophisticated investors in the stockmarket, who are themselves capable of making serious mistakes. If the little man went into a business of his own, he had a better than even chance of failing in a few years' time. His seemingly best conservative alternative was to put his money into a savings account. Over the past 45 years the interest on these averaged little better than 3 percent—less in earlier years; more recently. The yield on Treasury bills over those 45 years averaged under 2½ percent. At 3 percent the $20 would have amounted to about $76 by today; at 4 percent the $20 would amount to about $116 today. The little man would have done better with his $20 gold pieces in a mattress. An ounce of gold—103 percent of a $20 gold piece—is now about $200 and such coins as the double eagle—$20 gold piece—are sold for $350 or more. The smaller American gold coins are also sold for more in proportion to their face value.

The CHAIRMAN. According to Dr. Bernstein, you pay taxes on your gold if you try to liquidate it. You would have a capital gain for it.

Mr. GANZ. With due respect for Dr. Bernstein, that would only be true if you did not have a like kind exchange. If you go into another type of gold to further diversify yourself you would avoid paying the capital gains tax.

The CHAIRMAN. I hope all of this is academic because I hope we will be able to change the capital gains tax in the next few months, be able to reduce it. I think there's a strong sentiment in Congress to change that and change that rather drastically.

Mr. BERNSTEIN. I wouldn't argue that the price of gold won't match the rise in prices; that is the inflation. I'm just really questioning whether it is the best investment. Somebody here pointed out—and you will find it in my statement too—the price of gold hasn't risen in the last 20 months in terms of the yen. It's hardly risen at all in terms of

Swiss francs. It has risen in terms of the dollar. But if anybody had held an asset, an income earning asset, and that's what you have pointed out, an income earning asset denominated in dollars, if you go far enough back, it would have been superior to hoarding gold coins. But anybody who had, instead of buying gold coins, bought and kept an asset denominated in yen or Swiss francs in the past 2 years would have been far better off than with a gold coin, and it troubles me.

Two weeks ago—less than that—on August 16, when the President made his little statement on we must do something about the exchange rate, the price of gold rose to—it had been $216 an ounce. This morning it's $198 an ounce. What are we doing, inviting people of moderate means to speculate in gold? I have no objection to their doing it if they want to, but why do we invite them to buy something like this?

The CHAIRMAN. Right there I think there's a very serious social problem. It seems to me that your arguments are very convincing. I'm not going to put my money into gold. However, I think I should be free to do so if I wished to do so.

Mr. BERNSTEIN. You are.

The CHAIRMAN. It's a worse investment than many things. It's better than others. If people want to be foolish with their money in this country they have been free to do so. We haven't got laws keeping the banks from putting their money into REIT's in which they did very badly.

Mr. BERNSTEIN. Senator, my point is very simple. Gold is gold. A person who buys a Krugerrand has just the same gold, if that's what he wants, as when he buys Senator Helms' medallion. My objection to the medallion is not that we are selling them gold, but that we are putting the symbol of the United States on it which will make it more attractive.

The CHAIRMAN. Then you differ from the Treasury in this particular respect. I asked them whether they would consider selling wafers, 1 ounce and one-half ounce gold, without putting the seal of the United States on it and not making medallions, just making it available the way they now do the large bars, and their answer was, no, for the same reasons they oppose the Helms proposal.

Mr. BERNSTEIN. Well, I can't see that point really myself. I'm indifferent on that.

The CHAIRMAN. Your opinion is they should be free to sell the wafers in smaller denominations so people with more modest incomes would be in a position to buy them?

Mr. BERNSTEIN. If they want a wafer that actually comes out of the gold at Fort Knox, although I don't see any chemical difference between that and the gold that comes from the mines of South Africa, certainly let them buy it. My objection is to the use of the great seal of the United States on the grounds that people of less sophistication are going to say, look here, the U.S. Government is offering me what they must regard as in the public interest for me to buy and hold this gold. That's what I object to.

The CHAIRMAN. Mr. Bogart, you say the Republic National Bank of New York would be prepared to guarantee the U.S. Government against any loss from U.S. medallions. How would that work?

Mr. BOGART. I said together with our dealers in the current climate and assuming that the coins would be auctioned in the manner in which the bullion is auctioned now, over a year's period of time.

The CHAIRMAN. Would you and your dealers be in a position to make a firm contractual commitment?

Mr. BOGART. Based on the gold price.

The CHAIRMAN. Based on the gold price?

Mr. BOGART. Right.

The CHAIRMAN. You would?

Mr. BOGART. Yes.

The CHAIRMAN. Mr. Criswell, you say in your prepared remarks that Treasury gold sales have a substantial adverse impact on the American balance of payments. Treasury's testimony and that of Dr. Bernstein directly contradicted that assertion. They say the sales have helped the balance of payments. Do you see some flaw in their analysis?

Mr. CRISWELL. Yes, I certainly do. First of all, if I might go back to the question you asked Dr. Bernstein a minute ago, and he said he was very much opposed to the seal of the United States being on coins. Frankly, Mr. Chairman, I believe that if the United States issued one-half ounce and 1 ounce gold medallion with the words "Freedom and Liberty" and the great seal of the United States, in a year's time such coins might become a standard gold coin for trade throughout the world. I would certainly rather see the words "Freedom and Liberty and Justice for All" on those coins than the South African seal or the hammer and sickle of Russia.

[The following statement was received for the record:]

CLARIFICATION OF TESTIMONY FROM THE AMERICAN NUMISMATIC ASSOCIATION

Testimony has been received from Dr. Edward Bernstein, a noted economist and monetary theorist, concerning certain objections which he had to the depiction of the Great Seal of the United States, together with certain words such as "Freedom" and "human rights" on gold medallions proposed in S. 2843, The Gold Medallion Act of 1978.

From Dr. Bernstein's testimony, it appears that his objection centers around the potential impact of the use of the Great Seal, and his belief that this would constitute a coin as opposed to a medal.

Both coin and currency is carefully defined in Title 31 of the United States Code. Clad coinage, for example, is defined in 31 U.S.C. § 391. Currency, for its, part, is defined in 31 U.S.C. § 401 et seq. In neither instance would the gold medallion therein qualify.

The money units of account in the United States, according to the original Mint Act of April 2, 1792, subsequently could apply as Revised Statute Section 3563, 31 U.S.C. 371, are dollars, dimes and cents. A piece of metal denominated by weight (1 ounce or ½ ounce) obviously does not qualify.

The inscriptions that must by law appear on all United States coins (3 U.S.C. 324) are the words liberty, together with a design implematic of liberty; the motto "In God We Trust," and on the reverse of all subsidiary coinage, an eagle.

The same does not in any place appear on a medallion as proposed in S. 2843.

The essential point of a coin or piece of currency is that they be legal tender for all debts, public and private, public charges, taxes, duties, and dues. See, for example, terminology utilized in the Coinage Act of 1965, Public Law 89–81, Title 1, Section 102, 31 U.S.C. 392.

In no sense would the medallion under S. 2843 be thusly characterized. Instead, while Senator Helms points out that they could be utilized to pay debts under a gold clause contract, they certainly would not be a legal tender and could only be used to settle such debts as might be mutually agreed by and between certain parties.

In summary, there is no legal basis for the fears expressed by Dr. Bernstein in connection with the use of the Great Seal and certain inscriptions upon the face and the reverse of the gold medallions contemplated by S. 2843.

The CHAIRMAN. His point was that it was kind of a lure, that it would attract people to make an investment that in his judgement might serve, under most circumstance, to be unwise, a come-on, and he wouldn't interfere with their freedom to buy gold but just a feeling that the United States was making it attractive to them by putting their imprimatur on it. You feel that because other countries do it we should?

Mr. Criswell. I would like to say, sir, that I feel there's a tremendous among of gold being sold to the U.S. citizens which we in the numismatic trade call rip-off gold coins. By this, I might describe them very briefly, I'm talking about gold coins issued by such countries very close to us, such as the Bahamas and Barbados which issue a $100 gold coin which says $100 legal tender on it and does not have anywhere near $100 value and the darn thing isn't even legal tender in the Bahamas and Barbados. You can't even spend it for the $100 face value marked on the coin, yet the American citizens are buying these things thinking that because the Bahamas and Barbados have their dollar pegged to ours that this dollar is actually worth legal tender of $100, and it is not. It has about $40 worth of gold in it and the things are not worth anything. They are absolutely useless after you pay $105 for them or whatever they sell them for.

The Chairman. Wouldn't the people be deceived into thinking the medallions are legal tender when they're not?

Mr. Criswell. No, I think that would be deceiving.

The Chairman. With the great seal of the United States on it, why not?

Mr. Criswell. Why should it be considered legal tender?

The Chairman. Many people feel that that has the good faith and credit of the United States.

Mr. Criswell. Well, I think they probably respect the United States' name more on a coin or on a paper dollar—maybe not so much any more—but they have for years, and I do believe that by the United States making these available I think that more people would consider them as a true and just fair amount of value of gold included therein. In other words, they would believe that there was actually one-half or 1 ounce in the coin.

The Chairman. How about this argument on the impact of the sale of gold on the balance of payments which you say is adverse and Dr. Bernstein disagrees and so does the Treasury? What's your answer to that?

Mr. Criswell. Yes, sir, I believe that it would not be an adverse thing. I think that the balance of payments are affected greatly by the various foreign gold coins being sold to collectors in this country as well as being sold for investment.

The Chairman. I'm not talking about gold coins. I'm talking about the sale of gold. Now you say the sale of gold, as I understand it, has a substantial adverse impact on the American balance of payments, and that contradicts what the Treasury says. They are selling gold now for precisely the opposite purpose. If they're wrong, we would like to know it.

Mr. Criswell. I think if we sold it in 1½-ounce medallions, it would certainly have a good effect on the balance of payments.

The Chairman. But their method of selling it now has an adverse effect?

Mr. Criswell. Because we are selling for 6 or 8 percent less than we could get for it.

Mr. GANZ. In addition to that, Mr. Chairman, if I might add, at the present time South Africa is exporting into this country in the area of about 2.9 million Krugerrands annually, 550,000 pieces within the last 2 months alone. That would calculate out at on an annual basis of between $100 million and $600 million and in large measure that is because Treasury gold sales have apparently stimulated interest on the part of American people to acquire gold, and this is the only gold that is really available to them.

The CHAIRMAN. So what you're really saying is you could do a lot better on our balance of payments if, instead of selling it in the form we do now, we sold it in medallions?

Mr. GANZ. Yes, Mr. Chairman.

The CHAIRMAN. Let me get back to that $600 million. You say that the Helms bill in effect denies $600 million or more per year of assistance to the South African Government. What's your assumption there? Are you assuming no U.S. imports of the Krugerrand if the Helms bill is passed? Are you assuming that they can't sell it?

Mr. GANZ. They would sell it to the rest of the world.

The CHAIRMAN. They would sell none here?

Mr. GANZ. I doubt they would sell nearly as many in the United States.

The CHAIRMAN. They would have to sell none here to make that $600 million work out.

Mr. CRISWELL. There's virtually no numismatic value to the Krugerrand except those that are sold in proof condition at a premium price, and if American gold were available I think American citizens would prefer buying it to the Krugerrand.

The CHAIRMAN. If demand for Krugerrands drops, what's to keep South Africa from selling more gold bullion? After all, the South Africans want to sell bullion at the highest possible price. The markup on the Krugerrand is so slight that they must be relatively indifferent between selling Krugerrands and bullion. The way to hurt South Africa would be to sell more U.S. gold in any form and discourage using gold for monetary purposes. That's the U.S. policy, yet you oppose that.

Mr. CRISWELL. I would hate for us to get into a gold selling war with South Africa and have Russia enter the picture, and I think you could eventually destroy the price of gold completely for a short period of time.

The CHAIRMAN. If they got into the picture it would be against their interest because they are both great gold producers and they have nothing to gain by that.

Mr. GANZ. Three percent is a substantial amount when you're dealing with the sum of $200 an ounce of gold. It's substantially more than the calculator price differential you referred to earlier, Mr. Chairman.

The CHAIRMAN. Yes, but it barely covers their manufacturing cost.

Mr. GANZ. Treasury testified this morning that it would barely be 1 percent of the manufactured cost, about $2 per coin. So that would be a 1-percent figure. There would still be that 2 percent differential which would still be substantial.

Mr. BERNSTEIN. Senator, I think what you said is exactly right. Suppose the United States mints coins of 1 ounce and ½ ounce into Senator Helms' medallions but takes it all out of its sale of bullion.

We would then import less. We would import less coins but we would have to import more bullion. The South Africans would be selling less Krugerrands but would sell more bullion. So far as I can see, if we limited ourselves to the 1 ounce and the ½ ounce medallions, we would have made no difference at all in the supply of and demand for gold in the world or in our imports of gold. It's all exactly the same. The only difference is we would have incurred 3 or 4 percent in domestic expenses in minting and marketing the coin and, of course, the South Africans incur the marketing expenses but not the minting expenses in this country. Don't forget, out of the 6 percent or whatever is the markup, some of it goes to dealers in the United States who earn it in dollars. It doesn't go to South Africa.

The CHAIRMAN. Mr. Criswell, you say that most Americans are being denied the opportunity of acquiring gold. I understand that Americans can easily buy gold coins, new, old, and restrikes, small gold bars, 1 ounce, 5 ounces, 10 ounces, gold medallions, gold jewelry. Why do you say most Americans are being denied the opportunity of acquiring gold when the private market seems to be selling gold and rather successfully?

Mr. CRISWELL. I mean that most of them are being denied the opportunity of acquiring gold at the same price that the Treasury is selling it at or at a very small percentage over.

At the present time a lot of Americans don't realize that they can go to any coin dealer, and many banks also are handling Krugerrands, and buy gold coins. If we had available a U.S. medal they would then be able to buy it if they want it. It might work out to be the old story then, that if they knew it was available, then they wouldn't want it. We might be making it a desirable factor for them to buy them or desire them if they think they can't get them easily.

The CHAIRMAN. Mrs. Currier, how do you respond to Dr. Bernstein's argument that buying gold doesn't seem to be a very good investment in view of the sales tax, in view of the manufacturing and minting cost, and then in view of the fact that you're holding an asset that yields no interest at all?

Mrs. CURRIER. Of course, there can be better investments than gold, but gold is better than any debt investment. I'd like to quote Professor Carl Wiegand's statement that I think relates to this. He says:

> The only way to make non-interest bearing gold more desirable than interest-bearing paper money deposits is to depreciate the currency faster than it can earn interest. If the public gets 6 percent on its savings and the government does not reduce the 6 percent interest to 4 percent through taxes

The CHAIRMAN. You say the Government reduces it from 6 to 4 percent?

Mrs. CURRIER. I'm quoting Carl Wiegand.

The CHAIRMAN. Carl Wiegand is making assumptions that may not be true. It depends on how good a tax lawyer you have.

Mrs. CURRIER. Right.

The CHAIRMAN. We may not be losing anything.

Mrs. CURRIER. Possibly—but that is about a 30-percent tax. Professor Wiegand continues:

> and the dollar depreciates by only 3 percent, the people will keep their money in the bank. But as long as the Government takes 2 percent of the 6 percent interest received and the dollar depreciates by 7 percent, the rational person will rather have gold—whether American gold medallions or krugerrands—than depreciating paper money deposits.

I should also like to comment on Dr. Bernstein's concern about placing the great seal of the United States on the medallion and thereby providing an emotional appeal to buy the medallion. If that objection is valid, then there should have been—and should be—concern about the U.S. Government securities that average citizens purchased over the past 45 years—securities which also bore the great seal or symbols of the United States. A Government bond bought in 1933 would have lost 83 percent of its buying power by 1978; one bought in 1945, about 70 percent of its buying power; and one bought as late as 1967, about 48 percent of its buying power. I am neither adding interest nor subtracting taxes. I refer just to the loss of buying power of the principal—which is the important issue. Compared to such records, the $20 gold piece in a mattress is a marvelous investment. It would seem to me that with the American Government's record of a depreciating dollar it would not want to limit in any way the right of the citizen to protect his savings on the assumption that the Government knew better what is good for the American little man. The record demonstrates otherwise.

Mr. Criswell. Mr. Chairman, if I might say one word on the sales tax, too; a lot of people will go to a State where they do not charge sales tax. Many States do not charge sales tax on gold bullion or they can order it through the mail, and you can do this through various coin dealers who will sell them through the mail and they do not charge sales tax on them.

The Chairman. Can you give us any idea how many States there are that don't have a sales tax?

Mr. Criswell. I would imagine that—I think probably the ones that do are in a very small minority.

Mr. Ganz. We will supply that for the record.

[The information follows:]

The question has been posed as to which States presently do not have a sales tax in force. My research discloses that at the present time, only two States have no sales tax in force and effect, Alaska and Delaware. However, it should be observed that an individual of one State making mail purchases in another normally pays no sales tax—though a compensating tax may in fact be due.

The Chairman. Almost every State has a sales tax. I can't think of any offhand that don't have sales tax.

Mr. Bernstein. If they mail it from New York to the District of Columbia, there's no sales tax under the law because it's interstate commerce. It can only be a tax on——

Mr. Bogart. There is a sales tax but it has to be paid for by the person ordering the coins. It's not collected at the time of sale.

Mr. Bernstein. There's an obligation on me when I buy in Maryland to be sure I pay the District sales tax. That's what he's saying.

The Chairman. So if you comply with the law you've got to pay sales tax.

Mr. Bogart. If you comply with the law, you must pay sales tax.

The Chairman. And as I say, I can't think of any State that doesn't have sales tax. Why would they exempt gold? You usually exempt things like food. They do in Wisconsin.

Mr. Bogart. I think in California it's exempted over $1,000.

The Chairman. Over $1,000?

Mr. Ganz. It would also be like purchasing money. You don't pay sales tax when you ask a bank for $100. You get charged interest.

The CHAIRMAN. We're talking about medallions, not coins here, and the medallions would certainly be considered closer to jewelry than they would to coins. They are not legal tender. For that reason they would be subject to sales tax.

Mr. BOGART. The $1,000 in California pertains to the Krugerrand because it's legal tender.

Mr. CRISWELL. I would submit, sir, if you look in any magazine and you see items offered for sale, it says "Sales tax at 4 percent or 8 percent sales tax if a resident of New York." In other words, they are only going to charge sales tax if you're in New York, because they are located in New York, and they must charge sales tax only for their residents. Legally they might be getting around it, but they are not paying sales tax on it. But, Mr. Chairman, I will try and get the information and supply it for the record of what States have it.

Mr. BERNSTEIN. I just want to explain the economics of why the price of gold must be volatile. I'm going to give you, if you're interested, a paper I wrote in January 1975 in which I argued that this volatility—it was then at a peak—must be borne in mind. At any given moment when you buy gold, what you're saying is the following: "My expectation is that the price of gold will rise more than the rate of interest and the cost of buying, acquiring, holding and selling it." Now if for any reason something happens to change the supply and demand situation adversely, the price must then drop to a level from which that expectation can be resumed. That is to say, if suddenly speculators decide they don't want gold at $200 an ounce it may have to fall to $160 because at that price speculators will say we expect it to rise again at the rate of roughly 9 percent per annum, the forwardation in the futures market, and then there may be a resumption of the rise.

The amount of gold held by speculators is unbelievable. If they ever decide to liquidate their holdings—and this has happened about three or four times—the price of gold would fall sharply. It happened after the gold pool was wound up in 1968. It happened again in 1970 or so. And of course there was a big liquidation of their holdings by speculators in 1975–76—that is the quantity of gold held by speculators, investors and traders actually dropped. That's what brought the large fall in the price of gold.

It's inherent in the system that if speculators ever change their mind and say, "Hey, the price is too high now; it's gone up too fast"—maybe it has—you can have a very sharp drop. Or if they make up their minds it can rise in the future at a rate of 9 percent per annum, it will drop until at the new price you do have that expectation. I don't think people who have $200 or $300 to save now and then ought in any way, even inadvertently, be induced to believe that they somehow have got the right investment when they buy a medallion with the great seal of the United States.

The CHAIRMAN. Dr. Bernstein, I think we are overlooking in all this discussion one element. The assumption has been consistently that there's a fixed supply and demand pretty much for gold. Look at that chart over there. You'll find that in 1974 and 1978 there was an increase in industrial demand, a very large increase of about 30 percent. An increase in private bullion purchases, and then medals and official coins on top of that. Even though the medals and official coins diminished between 1974 and 1978, the overall demand for gold went up.

As I recall, there have been a series of articles in business publications recently indicating that the expectation is the industrial demand for gold is much more likely to increase than the production of gold. Under those circumstances here are dynamic elements that are likely to result in a higher price for gold in spite of the actions of speculators which can have only a relatively short-term interest.

Mr. BERNSTEIN. I don't think so, Senator, because I think we are making some comparisons there of biased years and if you don't mind I would like to use some other years too. May I?

The CHAIRMAN. Sure.

Mr. BERNSTEIN. I have a paper here in which I have the use of gold in the arts and industry. I'm going to define what I mean by arts and industry. It does not include official coins, facsimile coins, or medals. It does not include bars, meaning small bars for hoarding or large bars for investment.

In the arts and industry we did have a very big rise from 1974 to 1977, but you know that in 1974 the amount used was down 65 percent from what it was 3 years earlier in 1971.

The CHAIRMAN. Well, regardless of what the years show I think you may be absolutely right that you could take other years and get other results. Those who are concerned with the price of gold have to look much more deeply into the prospective industrial demand and into the likelihood of increased production and cost of production, and so forth. These are elements, too.

Mr. BERNSTEIN. I've got the figures right here.

ABSORPTION OF GOLD IN THE ARTS AND INDUSTRY, 1970–77

	Million troy ounces							
	1970	1971	1972	1973	1974	1975	1976	1977
Total	40.90	41.05	39.79	25.05	14.07	22.40	36.71	38.62
Jewelry	34.15	34.06	32.01	16.48	7.47	16.59	29.97	31.47
Dentistry	1.88	2.02	2.12	2.17	1.83	1.99	2.45	2.60
Electronics	2.87	2.76	3.40	4.08	2.96	2.02	2.28	2.35
Other arts and industry	2.00	2.21	2.27	2.32	1.81	1.81	2.01	2.20

The CHAIRMAN. All right.

Mr. BOGART. Senator, our bank deals extensively with selling gold coins to the public at large, and one thing we always say—probably the first question asked by everybody when they call on the phone, they say, "Well, is today the right time to buy and what's the price going to be in 6 months?" Then we have instructions—and it's bank instructions—at no time do we ever make a prediction as to price, do we ever say this is a good investment or a bad investment, do we ever tell them whether to buy or not to buy. We are there to provide a service. They know that we sell gold coins, and if they want one we will give it to them. I don't think anybody on this panel or anywhere else can predict what the price of gold will be, regardless of inflation, 5 years from now.

I think of the bill, which is what we're discussing. You mentioned before about the REIT's. If people want something, if people want to buy a stock, if they want anything else, they just want a place to go and purchase it. It seems to me that the people would like—a certain segment of the population—in fact, a small segment of the population—would like to buy a U.S. gold coin because probably they see all these other gold coins around and we don't have one of our own. It is not implying that we are saying the price is going up, down, or otherwise. We are providing a service. This bill will provide a service to those people in the United States who wish to purchase a gold coin. I don't think it does anything more. I don't think it does anything else.

Mr. BERNSTEIN. Senator, in the year 1970, the absorption of gold in jewelry manufacturing was 34.2 million ounces. In 1974, it was 7.5 million ounces. That's the kind of drop that occurred 4 years ago and would occur again.

Mr. BOGART. We were in a recession then, Mr. Bernstein.

Mr. BERNSTEIN. Right. More important, 1974 was high priced. That is the year from which you are measuring the increase.

The CHAIRMAN. But that doesn't answer Mr. Bogart's fundamental point, which I think is a very strong argument. Regardless of what happens to the price of gold, it's a matter of people being free if they wish to do so to buy gold medallions. If they can buy them from other countries that have their imprimatur on them, why shouldn't they be able to buy American gold coins if they wish to do so? It may or may not have anything to do with speculation as to what's going to happen in the future. It may simply be a Christmas present for your wife or something that you'd like to have because you just think it's a nice piece, like jewelry.

Mr. BERNSTEIN. It's very attractive. Senator, I haven't any objection to their buying anything that's available, and I have no objection to the U.S. Treasury providing them very attractive wafers.

But I don't want the great seal of the United States on it. I have no objections to as fancy a looking medallion as can be produced without the great seal or the words "United States" on it.

The CHAIRMAN. Let me ask one final question of Mr. Criswell and Mr. Bogart.

Mr. Criswell, if there's a demand for gold bullion medallions, why wasn't the American Prospector more successful? Why doesn't the private market, through a private mint like the Franklin Mint, do it?

Mr. CRISWELL. I think that's very easy to answer, Senator. Anything that's issued by any private firms is not popular. Gold coins have been made for years by Engelhard and private firms in both Canada and England, and they were not popular. Only when the governmental issue of the Krugerrand was promoted was it popularity sold. Anything that's issued by a private manufacturer is not going to be as popular as anything issued by a government.

First of all, there are collectors who will collect governmental issues that wouldn't buy any private issue; and second, there are a lot of people that don't trust private issues as opposed to the Government. They just wouldn't buy it. Novices would.

The CHAIRMAN. Why doesn't that make Dr. Bernstein's point, that what you're looking for is really a Government endorsement to attract people to buying this, valid?

Mr. CRISWELL. They will buy ones with other government endorsements, which they are doing at the present time. They are buying the South African Krugerrand, and they are endorsed by the South African Government and traded on a large-scale basis. These other—

Engelhard bars and things like that are traded also, but on a very, very limited basis.

The CHAIRMAN. Did you have anything to add to that, Mr. Bogart?

Mr. BOGART. The point is that the Government is selling gold, and should the government make a 1-ounce wafer bar or coin or medallion or whatever you want so that the little people have a chance to buy it. They are selling the gold. It's just the question of can somebody pay about $200 and buy 1 ounce of it, or must they start paying $80,000?

The CHAIRMAN. You see, on that score, you don't disagree with Dr. Bernstein. He doesn't disagree with that.

Mr. BOGART. There's a good question that's been brought up as to whether the great seal of the United States should be on the coin or medallion, and that's a very good question for exploration; but the fact a medallion should be sold—and I think that's the basic reason why we're here—I so far have not seen any comments as to why it should not be sold.

The CHAIRMAN. Well, I want to thank you all very much. I think you've made an excellent record. We deeply appreciate your coming.

The committee will stand adjourned.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

[Copy of S. 2843 and additional statements received for the record follow:]

[S. 2843, 95th Cong., 2d sess.]

A BILL To provide for the issuance of gold medallions, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Gold Medallion Act of 1978".

SEC. 2 (a) (1) Upon a determination by the Secretary of the Treasury (hereinafter referred to as the "Secretary") that it is in the national interest to sell gold, the Secretary shall offer all or part of such gold for sale to the public in accordance with this Act in the form of gold medallions, of two sizes, one of which shall contain one ounce of .999 fine gold but shall be manufactured from .900 fine gold, and one such medallion shall contain one-half ounce of .999 fine gold but shall be manufactured from .900 fine gold.

(2) The one ounce medallion shall have on its face the likeness of the Statute of Freedom atop the dome of the Capitol Building, surrounded by laurel leaves. The word "freedom" shall be inscribed above the likeness, and the words "one ounce fine gold" shall be inscribed in the remaining area inside the edge of the medallion. The obverse of the one ounce medallion shall have a representation of the Great Seal of the United States, and be inscribed with the words "United States of America" and the numerals of the year the medallion is produced inside the edge of the medallion.

(3) The one-half ounce medallion shall have on its face, an appropriate design symbolizing the rights of individuals, the words "Human Rights" and the words "one-half ounce fine gold". The obverse shall have a representation of the Great Seal of the United States and be inscribed with the words "United States of America" and the numerals of the year in which the medallion is produced.

(b) If the Secretary determines that less than one and one-half million ounces of gold is to be sold in any fiscal year after the date of enactment of this Act, all such gold shall be sold in the form of the medallions described in subsection (a).

(c) If the Secretary determines that more than one and one-half million ounces of gold are to be sold in any such year, that part of the excess gold which is not struck into medallions shall be sold in such a manner as the Secretary deems appropriate.

SEC. 3. (a) The medallion shall be produced in the first year of production in the ratio of two one-half ounce medallions for each one ounce medallion to be struck. In subsequent years, that ratio shall be adjusted to meet anticipated demand.

(b) Notwithstanding any other provisions of this Act the number of medallions to be produced and sold in succeeding years in which sales of gold are held, shall be adjusted to meet anticipated demand.

SEC. 4. (a) Upon the determination referred to in section 2, the Secretary shall announce such determination, together with the total quantity medallions to be sold, and the date or dates on which the sale or sales will be held. For the purpose of carrying out any such sale, the Secretary shall enter into such arrangements with the Administrator of General Services as may be appropriate.

(b) Such arrangements for the sale of medallions shall be made so as to encourage broad public participation.

(c) Such rules and regulations as may be appropriate in carrying out functions under this section are hereby authorized.

SEC. 5. The Secretary shall direct the Bureau of the Mint to reserve out of the gold to be struck into the medallions under this Act a quantity determined, on the basis of orders or surveys, by such Bureau to be sufficient to meet the need for premium quality medallions at a fair, market-related price.

SEC. 6. Notwithstanding any other provisions of this Act, the authority contained herein shall expire five years after the date of enactment of this Act.

REMARKS OF HONORABLE JIM LEACH, AUGUST 25, 1978, BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Mr. CHAIRMAN: I appreciate the opportunity to submit a statement in support of legislation to authorize the striking of one-half ounce and one ounce gold medallions. Recently I have introduced legislation in the House—H.R. 13567: the American Arts Gold Medallion Act to authorize the minting of one million ounces of gold per year for five years. A copy of this legislation is attached for your consideration.

As Ranking Republican Member of the Subcommittee on Historic Preservation and Coinage, I have been very interested in the proliferation of ideas for commemorative coins and medals, new coins and gold medallions. In a variety of hearings that we have had, I have asked witnesses what they would think of our marketing small gold medallions; and without exception public witnesses have been enthusiastic. Since we repealed the archaic prohibition against the owning of gold in America, an increasing number of citizens have shown a discrete but enthusiastic desire to do so. The Treasury argued at that time that we should not repeal the prohibition because by that very act we would be giving tacit approval to gold as an investment which might be bad advice to our citizens. And indeed it would have been; for as you know gold, which had risen to $197.50 an ounce in December of 1974 as world speculators anticipated American entry into the market, fell to a low of $105 an ounce in September of 1976 as Americans demonstrated their reluctance to play the speculators' game. Now, of course, gold values have recently been on the rise, and while a gold holding is speculative, so are investments in land, diamonds, apartment houses, and grain futures contracts—all of which are perfectly legal.

Accordingly, I was disappointed in the recent correspondence from Secretary Blumenthal which indicates that the Treasury is dragging the old endorsement skeleton out of the closet again as a reason for opposing gold medals. I don't believe that Congressional authorization for the production and sale of gold medals should, or would be, construed as endorsing gold as a investment. It should be noted, however, that the Treasury has consistently recommended the purchase of U.S. Savings Bonds and that a savings bond purchased for $100 in December of 1974 would today have purchasing power after the payment of interest of only $97.50—not a very good economic investment.

Realistically, I think we have to recognize that the real message our government—and world opinion of the dollar—is sending is that we are not controlling inflation as we should and that it is good business to invest in things that maintain their value. There is no denying that people who can afford to are investing in real estate, diamonds, art works, and gold as a hedge against inflation. But what investments are available for the small saver? Diamonds and art works are likely to be expensive; and, more importantly, you have to be an expert in your own right to judge quality, or spend inordinate amounts of time and money in getting professional appraisals. Additionally, real estate is beyond most peoples' budget and 400 ounce bars of gold are out of the question. What's left? Increasing numbers of Americans are investing approximately $250 million a year in foreign gold coins and medallions containing an ounce or less of gold.

The question then is why should we sit idly by and see our American gold purchased in 400 ounce bars by the large institutions, many foreign controlled, while our citizens in turn are forced to buy imported coins? The individual American has second class rights as contrasted with certain large foreign institutions. In addition, the individual American in many cases is only given the option to purchase gold from governments that don't respect human rights to the same degree that our country does.

Finally, let me point out two provisions of H.R. 13567 which are different from the Helm's bill. First, Section 3 specifies the quality of the gold to be used in the medallions. The quality stipulated is that of the gold currently maintained by our Treasury, so it does not necessitate further refining. It is the world standard of quality. By specifying in the bill what the quality shall be, we assure our citizens and any future buyers, that there will be no dilution of quality in the manufacturing process.

Secondly, and I think of great importance, Section 4 makes it illegal to counterfeit these medals. We have laws that make it illegal to counterfeit our currency and coins; but, interestingly, we have never had such protection for our national medals. While I agree with Secretary Blumenthal that we should not do anything which gives the appearance of monetizing gold, I have not proposed, as some others have, that we mint gold coins; but I do believe it is most important to protect any holders of our gold medals against counterfeit imitations.

In considering any legislation to produce gold medallions, I hope you will include these two important provisions. While we cannot assure our citizens that the purchase of gold medallions is a good investment, we can assure them of the highest quality of value and degree of safety in the medals they do buy.

We also have the responsibility of assuring that the medallions are reasonably designed. Since the proposal for a new one-dollar coin, the House Subcommittee on Historic Preservation and Coinage has been besieged with suggestions for great Americans who deserve recognition for their contributions to our heritage. Unfortunately there is no one symbol, nor any one person alive or dead, that properly honors all the deserving nominees. The striking of gold medallions offers us the possibility of recognizing a larger group than is possible on our coinage. Because our coins, including the proposed new one-dollar coin, honor individuals whose contributions have been in government and politics, I am suggesting in H.R. 13567 that we honor 10 individuals who have been distinguished contributors to the arts—music, painting, writing, architecture, and the theatre. Other fields might well be chosen, or other people than I have selected within the field of arts; but the point I want to emphasize is this: while our coinage is and should be devoted to honoring those who have contributed to our political heritage, medals offer us an opportunity to honor those who have contributed to our cultural development, our economic achievements, our technological expertise, and other accomplishments which reflect the wide dimensions of our democratic society. While I have recommended the field of arts for the first five-year series, I would envision honoring other fields of achievement in the years ahead. I urge you to consider this objective as you contemplate the striking of these medals.

[H.R. 13567, 95th Cong., 2d sess.]

A BILL To provide for the striking and public sale of a series of gold medallions commemorating outstanding individuals in the American arts

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "American Arts Gold Medallion Act".

SEC. 2. The Secretary of the Treasury (hereinafter referred to as the "Secretary") shall, during each of the first five calendar years beginning after the date of enactment of this Act, strike and sell to the general public, as provided by this Act, gold medallions (hereinafter referred to as "medallions") containing, in the aggregate, not less than one million troy ounces of fine gold, and commemorating outstanding individuals in the American arts.

SEC. 3. (a) Medallions struck under authority of this Act shall be minted in two sizes containing, respectively one troy ounce and one-half troy ounce of fine gold. During the first year in which such medallions are struck, at least five hundred thousand troy ounces of fine gold shall be struck in each size of medallions authorized by this subsection. In succeeding years, the proportion of gold devoted to each size of medallions shall be determined by the Secretary on the basis of expected demand.

(b) Medallions struck under authority of this Act shall be of such fineness that, of one thousand parts by weight, nine hundred shall be of fine gold and one hundred of alloy. Medallions shall not be struck from ingots which deviate from the standard of this subsection by more than one part per thousand.

(c) Medallions struck under the authority of this Act shall bear such designs and inscriptions as the Secretary may approve subject to the following—

(1) during the first calendar year beginning after the date of enactment of this Act, one ounce medallions shall be struck with a picture of Grant Wood on the obverse side and one-half ounce medallions shall be struck with a picture of Marion Anderson on the obverse side;

(2) during the second calendar year beginning after the date of enactment of this Act, one ounce medallions shall be struck with a picture of Mark Twain on the obverse side and one-half ounce medallions shall be struck with a picture of Willa Cather on the obverse side;

(3) during the third calendar year beginning after the date of enactment of this Act, one ounce medallions shall be struck with a picture of Louis Armstrong on the obverse side and one-half ounce medallions shall be struck with a picture of Frank Lloyd Wright on the obverse side;

(4) during the fourth calendar year beginning after the date of enactment of this Act, one ounce medallions shall be struck with a picture of Robert Frost on the obverse side and one-half ounce medallions shall be struck with a picture of Alexander Calder on the obverse side; and

(5) during the fifth calendar year beginning after the date of enactment of this Act, one ounce medallions shall be struck with a picture of Helen Hayes on the obverse side and one-half ounce medallions shall be struck with a picture of John Steinbeck on the obverse side.

The reverse side of each medallion shall be of different design, shall be representative of the artistic achievements of the individual on the obverse side, and shall include the inscription "American Arts Commemorative Series".

SEC. 4. Dies for use in striking the medallions authorized by this Act may be executed by the engraver, and the medallions struck by the Superintendent of coining department of the mint at Philadelphia, under such regulations as the Superintendent, with the approval of the Director of the Mint, may prescribe. In order to carry out this Act, the Secretary may enter into contracts: *Provided*, That suitable precautions are maintained to secure against counterfeiting and against unauthorized issuance of medallions struck under authority of this Act.

SEC. 5. For purposes of section 485 of title 18 of the United States Code, a coin of a denomination of higher than 5 cents shall be deemed to include any medallion struck under the authority of this Act.

SEC. 6. (a) Medallions struck under authority of this Act shall be sold to the general public at a competitive price equal to the free market value of the gold contained therein plus the cost of manufacture, including labor, materials, dies, use of machinery, and overhead expenses including marketing costs. In order to carry out the purposes of this section, the Secretary shall enter into such arrangements with the Administrator of General Services (hereinafter referred to as the "Administrator") as may be appropriate.

(b) The Administrator shall make such arrangements for the sale of medallions as will encourage broad public participation and will not preclude purchases of single pieces.

(c) The Administrator may, after consultation with the Secretary, issue rules and regulations to carry out this section.

TESTIMONY OF HON. GEORGE HANSEN OF IDAHO IN THE U.S. SENATE, BEFORE THE SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE, AUGUST 25, 1978

Mr. Chairman, you are performing a signal service by conducting today's hearings on Senator Helms' bill to strike and sell gold medallions to the general public. The Commerce Department tells us that last year Americans bought more than 1,500,000 ounces of gold coins from overseas sources, contributing more than a quarter of a billion dollars to our balance of trade deficit. At the same time, most of the gold auctioned by the Treasury in the sales conducted in the last few months has gone abroad. I understand from news reports that three-fourths of the gold auctioned off in the last sale went to a single German bank. This is typical of the distribution of United States gold in these periodic sales.

Part of the problem is that the minimum amount of gold sold by the Treasury is a bar of 400 ounces. At today's price, that amounts to more than $80,000. Clearly, few Americans can afford to put that much money up at once for an investment. At the same time, the success of the South African Krugerrand sales in the United States demonstrates that there is a demand for gold in small, easily purchased, and easily authenticated form.

The Treasury Department over the years has held to the idea that any sale of gold would constitute monetization of gold, and has steadfastly resisted making it easy for Americans to hold gold, to trade in gold, or to buy it from the Treasury. Two of these three silly restrictions have been pulled down, to the outraged screams of Treasury bureaucrats who insist, like all good bureaucrats, that the only safe way of doing anything is the way it is now being done.

The way Americans are now buying gold is by paying European and South African and other foreign governments a fee for taking United States Treasury gold and making it up into coins which are then shipped back to the United States to keep up the business volume and margins of coin dealers across the country.

There really is no reason why Americans should not be able to buy gold from their own Treasury. And there is no reason why the Treasury should not sell that gold in such a way as to benefit individual American citizens instead of German banks.

To provide domestic competition for foreign gold coins, I have introduced H.R. 13309, which would provide for the striking and sale to the general public of gold coin medals.

The gold pieces I have proposed would be of one-half and one ounce sizes and would be made from 90% gold. The designs would constitute a continuing series of commemoratives suitably memorializing worthy persons and events in our national history.

Other bills have been introduced, with somewhat different features. All the bills agree on one thing of importance, that the coins or medallions should not be legal tender, and that they should bear no designation of dollar or other value. We can agree with the Treasury that the United States, under present circumstances, should limit its participation in the gold market to meeting foreign gold coin competition. This does not require the monetization of gold, and none of the bills proposed would result in such monetization. The South African Krugerrand does not circulate as hand-to-hand money and pieces properly designed to compete with the Krugerrand would not circulate in that way, either. Moreover, the provision to memorialize people and events on these proposed gold pieces removes the medallions or coins further from the aspect of being simply "money", and leads us to expect that there would be even less tendency for these pieces to be used in trade than is the very limited case—if at all—with Krugerrands.

All the bills also agree that the size of the medallions or coins should be small enough to enable most families to buy at least one. Even with the recent increase in the price of gold, a half-ounce medallion would not cost more than $125, counting the cost of manufacture and merchandising as well as the gold content. If my understanding of the bills is correct, it is also uniformly contemplated that these gold pieces should be struck in such quantities as to prevent their being, at issue, sold on the secondary market at a premium because of rarity. In my bill, I have tried to make this clear by listing the factors which can be entered into the cost of the coins, and specifying that production should be set to fulfill demand at that competitive price determined on the basis of ordinary manufacturing costs. In my opinion, the legislation we finally agree on should not permit charging any seignorage or rarity premium from arising immediately on the secondary market. Another way of stating this is to say no rationing of the pieces should be necessary, the price being sufficient to balance supply and demand.

I am also concerned that the proposed gold pieces should be easily available for purchase throughout the United States. It is sufficient, I think, to admonish the Secretary of the Treasury and the General Services Administration to take the requisite steps to bring about that result. I am convinced that the secondary market is already sufficiently active and perfected to cause the pieces to be widely distributed, provided that enough are struck and offered at the proper price. If these conditions are met, there will be little variation in the price at different places and I would expect, for example, that most banks would offer the pieces over the counter or will offer to get them for a modest service fee.

Finally, it seems to me very important that the individual purchaser who is not a gold expert be able to authenticate the gold pieces very easily and at little, if any, cost. It is in this regard that my bill differs most significantly from Senator Helms' proposal.

Banking Committee counsel in the other body have told me that the counterfeiting statutes—Title 18, U.S. Code, Section 485—prohibits the counterfeiting of any foreign legal tender coin, as well as counterfeiting in the United States because it is legal tender in South Africa, even though it does not circulate there. It is important to note that this same statute does not extend to gold medals or medallions struck by the United States. Thus, in the absence of any statutory prohibition, a person who duplicates a United States gold medal with a lower gold content can be prosecuted civilly and criminally for fraud (assuming there is a fraudulent intent), but not for counterfeiting.

My bill replicates the counterfeiting statutes, with some conforming technical changes, so as to give the highest degree of protection to individual citizens, affording them the greatest guarantee we can give of the weight, fineness, and authenticity of these proposed gold pieces. I am not clear in my mind that my colleague from Iowa, Mr. Leach, has attained the same purpose by simply defining the gold pieces proposed in his bill as United States coins for the limited purposes of the counterfeiting statutes. While this seems to be cleaner language and much more straightforward, I have some question about whether it might create unlooked-for problems on the matter of monetization of gold and the status of the proposed pieces as being, by construction, legal tender. I believe my admittedly more complicated language avoids such difficulties.

The bill introduced by the esteemed Senator from North Carolina, Mr. Helms, is, I believe, defective in this matter of guaranteeing authenticity. I have been told by some that the use of the Great Seal of the United States on each piece would attain my same object, since it is a felony to copy the seal. After careful research, I have concluded that this is based on a misreading of the statutes prohibiting the forgery of seals generaly. Those statutes only go to documents, in my reading of the law, while the representation on the gold pieces would only be a kind of picture or artistic interpretation of the seal and I doubt that any court would hold it to be protected from copying. I therefore strongly recommend that this Committee amend the bill to incorporate a prohibition against forgery or counterfeiting.

The other difficulty I have with Senator Helms' bill as introduced is a minor technical point, but one worth noticing. That the bill speaks of making the gold pieces from gold 99.9% pure, but the final product to be 90% gold. In the gold bullion trade, gold is considered to be fine gold if it is at least 99.9% pure. Most of the United States gold stock is, in fact, 90% pure. Why the Helms' bill doesn't just say "fine gold" and instead imports this matter of minimum-purity fine gold is a puzzle to me. Indeed, why this subject of pure gold is mentioned at all confuses me. Read strictly, it might require that the Treasury refine our 90% gold to 99.9% purity, then add the alloy back in to make the blanks for striking. There would be no point to this exercise and I cannot imagine that this is what is being aimed at. It is surely sufficient for us to direct, in law, that each piece be 90% gold. How the bars are alloyed is of no importance. All we have to do is direct that there be certain standard weights and a standard fineness, and certain allowable deviations from these standards in each piece or group of pieces. This and a prohibition against counterfeiting are the greatest guarantees we can give of authenticity, weight, and fineness, and any more complicated language is pointless and confusing.

Mr. Chairman, the striking and sale of gold pieces by the Treasury would decrease our balance of trade deficit. would provide an official alternative to the booming trade in Krugerrands and other foreign gold coins, and would provide an opportunity to commemorate the best of our American heritage in worthy form. I congratulate you again for holding these hearings and urge you to move quickly to executive mark-up of the proposed legislation.

STATEMENT OF U.S. REPRESENTATIVE STEVEN D. SYMMS (1ST DISTRICT, IDAHO) TO THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS IN SUPPORT OF THE "GOLD MEDALLION ACT" (S. 2843, H.R. 11874)

Mr. Chairman and members of the Committee, I appreciate the opportunity to submit a statement in support of the "Gold Medallion Act" S. 2843: I regret that I am unable to appear in person before the Committee. I am the sponsor of H.R. 11874 in the House which is identical to S. 2843 introduced in the Senate by Senator Jesse Helms.

Mr. Chairman, the Department of Commerce estimates that in 1977, approximately 1.5 million ounces of gold in the form of bullion coins (such as Krugerrands, Austrian kronen) were imported into the United States. That is the equivalent of about $250 million in imports. Thus it seems only reasonable to me that, since the Treasury is already selling gold from the U.S. reserves, the United States should seriously consider the production of gold medallions that would effectively compete with foreign coins such as the South African Krugerrand that have proven so attractive to Americans who desire to purchase only a few ounces of gold.

By producing and selling at least 1.5 million ounces of gold in the form of these medallions as specified in the Helms-Symms legislation, the U.S. Treasury could still obtain whatever benefits it feels are derived from gold sales and at the same time enable the middle income American to buy some of the gold in an attractive form. In fact, more dollars are apt to be returned to the Treasury from the sales of medallions than from the 400 ounce bullion bars. Further, there is no reason to believe that some of the American medallions would not be attractive to international gold dealers.

It is imperative, Mr. Chairman, that if the U.S. does indeed mint a gold medallion that it be of a design and gold content that will be most competitive with the krugerrand and similar coins. There are pending in the House Banking Committee at least two proposals other than my bill to require the production of medallions. These other bills, however, would have the U.S. mint commemorative medals of varying design; such medallions would surely become numismatic in character and would not be desirable either as a competitor to foreign coins or as a method of reducing gold reserves to bring in dollars.

The U.S. medallions as provided for by the Helms-Symms bills could be traded and resold without being assayed since the gold content would be certified initially by the U.S. Treasury and its edges would be scored.

Whenever the topic of gold is brought up questions are always asked about its monetary role and the efforts by the past several administrations to "demonetize gold." Last year, the Treasury Department endorsed Senator Helms' bill to legalize gold clause contracts pointing out that gold should be treated like any other commodity. A gold medallion should be regarded just as we would regard a silver medallion or a copper one. It can no more threaten the campaign to "demonetize gold" than the new law legalizing gold clause contracts; the medallion would have no fixed monetary value and would not be legal tender.

I am aware that the Treasury Department has notified both the Senate and House Banking Committees of their opposition to this legislation, and I would like to take this opportunity to make a few comments in rebuttal.

I find it extraordinary that the Carter Administration, specifically the Secretary of the Treasury, states that the gold medallion proposal will undermine efforts to combat inflation. The credibility of the U.S. Government's willingness to combat and control inflation is called into question most by its own track record, and there is nothing to indicate that there is any serious effort underway to limit the growth in Federal spending and bureaucracy. Furthermore, the production and sale of gold medallions has nowhere near the impact of the President's own economic advisors stating that an inflation rate of 7.2 percent is expected for this year and that little improvement can be expected the following year, while announcements are made that the current rate of increase in the consumer price index is in excess of 10 percent per year.

In any case, if the Treasury Dept. construes the production and sale of one ounce gold medallions as undermining their anti-inflation rhetoric, then it would logically follow that the sale of the 400 ounce bars would also undermine the effort. After all, the only difference is the unit quantity being sold. Is the Treasury implying that it is acceptable to encourage the very rich to protect themselves from inflation by buying the 400 ounce bars at some $80,000 but unacceptable to sell the gold in such a manner that allows the middle income people to participate? Do they think that the middle income people are too stupid to realize that the Government really has no program underway to curtail inflation and can be manipulated by rhetoric?

I do not agree with Secretary Blumenthal's assertion that a U.S. one ounce medallion would place the Government in the position of encouraging or recommending gold as an investment. The U.S. Treasury Department has been anti-gold in its rhetoric for years, yet this has not stemmed the sales of Krugerrands or other bullion coins of foreign origin to Americans. The market for small quantities of gold clearly exist; it's only a matter of whether that market will be met partially by an American medallion. Likewise we could raise the question as to whether or not the sales of the 400 ounce bars should be interpreted as encouraging the foreign banks and the very wealthy to buy gold as an investment because the U.S. Government is not willing to combat inflation. The activity at the monthly auctions so far this year would indicate that no encouragement is necessary.

It has been asserted by some, I am told, that this legislation would have a bad effect on foreign exchange; yet, I have not heard of a single competent economist who believes this to be the case. Similar foreign coins have certainly not had ill effects on their countries exchange, and as you may know Canada has announced plans for a one ounce gold bullion coin.

I might add that I am pleased to learn that former Secretary of the Treasury Simon has sent a statement to this Committee in support of the Gold Medallion Act. Because of his renowned competence in domestic and international monetary affairs, I value Mr. Simon's thoughts on this matter highly.

In conclusion, Mr. Chairman, I respectfully urge your Committee to expedite favorable action on the Gold Medallion Act, S. 2843. If gold is to be sold from the U.S. reserves, then it should be in a manner that allows the majority of Americans to have an opportunity to buy some of "their" gold.

Thank you for your consideration.

GROSECLOSE, WILLIAMS & BRODERICK,
FINANCIAL AND INVESTMENT CONSULTANTS,
URBAN AFFAIRS CONSULTANTS,
Washington, D.C., August 25, 1978.

Hon. WILLIAM PROXMIRE,
Chairman, Banking, Housing and Urban Affairs Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR PROXMIRE: At the request of Senator Helms, sponsor of the Gold Medallion Act of 1978 (S. 2843) for the issuance of one-ounce and one-half ounce gold pieces, I am pleased to submit the following statement which I respectfully request be made part of the Hearing record.

I favor the bill. It is addressed to the relief of the major economic problem of the day, that of inflation. The steady decline in the purchasing power of the dollar is a subject with which I dealt in my first testimony before a Congressional committee just 24 years ago, and to which I returned in subsequent appearances before such committees, and in which I predicted a continued decay of the dollar unless corrective actions were not taken.

PAPER MONEY INFLATION BY COMMUNISTS

The free circulation of the precious metals in small units of standard weight and purity, as proposed in S. 2843, has throughout history been an important influence in promoting prosperity, public confidence and political stability. I had personal experience of these benefits in relief work in Iran and the Soviet Caucasus following World War I. Inflation with extinction of monetary values was then being used by the Communists to impoverish all classes of society and to bring all wealth under centralized, bureaucratic control; as a consequence trade was stagnant, production was in disorder, and millions were starving, many of them fed and nourished by American philanthropy.

At the same period, in what was then called Persia, the government was feeble, the country recovering from foreign occupation, but society remained relatively stable, and commerce and industry continued. This economic stability in the face of political decay was largely due, I concluded, to the fact that the circulation consisted only of good coinage. Persia had not then experienced the hazards and fluctuations of irredeemable paper notes. Mongol rulers in the 13th century had attempted to introduce paper currency as they had in China, but in Persia the effort was violently opposed and the vizier responsible for the effort was dragged by a mob through the streets and thrown to the dogs. No later government until that of the present dynasty had dared repeat the experiment.

SERVICES OF A GOOD COINAGE

My early experience in the Middle East led to a lifetime of study of the monetary question. Later, as special agent in the U.S. Department of Commerce, the Department issued my monograph on Currency Systems of the Orient; in 1934, my history of money, presently titled MONEY AND MAN, was published by the University of Oklahoma Press, the 4th edition of which appeared in 1976, and, I may add, not many contemporary economists can point to writings of theirs still in print and read after nearly 45 years.

In 1966, my history of the Federal Reserve System—Fifty Years of Managed Money—was published.

During World War II, Persia, now called Iran, was in a monetary crisis from inflation. Under the influence of western monetary theories paper currency had been introduced and good coinage had disappeared from circulation. During the war inflation had soared, with hoarding and speculation in every commodity of trade. Wheat especially was being hoarded, with the consequence of near famine, and coils of copper, a metal also in demand for war use. Our government was involved because Iran was the bridge by which it was delivering war materials to the Soviet Union, then our ally, and by an unwise financial agreement the dollar had been linked to the paper rial and was being dragged down to the same degree as the rial.

It was at this point that I was invited to return to that country, by appointment of the Iranian parliament, as Treasurer General of Iran, with the principal task of devising means of stopping or slowing the inflationary chute.

GOLD SALES IN WORLD WAR II

What was needed was a store of value as well as a stable medium of exchange. My first objective was to furnish such a medium by means of good silver coinage with which the country had long been accustomed. Regrettably the mint was in disrepair from non-use, and silver was not available. In lieu of silver I proposed the public sale of gold, and with the cooperation of the U.S. Treasury, which agreed to finance U.S. Army purchases in gold instead of credit, gold was made available, and I personally helped unload the first shipment, a ton sent by air.

At this point, a difficulty appeared. Under U.S. law, only gold in bar form could be made available, and the bars were too heavy and too expensive for the common man to acquire. Hoarded in the imperial Persian treasury, however, theoretically as a gold reserve for the currency, was a quantity of foreign gold coins—gold rubles, napoleons, sovereigns, eagles and the like, and these we exchanged for the bar gold received from the U.S. Treasury and put on sale in the open market.

The operation was an immediate success. People began to exchange their hoarded wheat and copper and paper rials for gold, and the currency was stabilized.

The results of the operation led, so I was advised, to the extension throughout the Middle East War Theatre. In China a similar policy, I learned later, had been recommended by Arthur Young, advisor to Chiang-Kai-shek, but was sabotaged—but that is another story.

DISAPPEARANCE OF GOOD COIN IN U.S.

In the United States the electorate has been deprived of good gold coinage since 1934, when the government seized all the gold held in the Treasury as security for gold certificates outstanding; at the same time all citizens and residents were required to deliver to the Treasury any gold coin in their possession, and the possession of or trade in gold was prohibited. The government's paper currency became irredeemable and the consequent steady decline in its value was reflected in the price of silver. Eventually silver disappeared from circulation and under policies which I opposed in various Congressional hearings the vast reserves of silver in the Treasury, at one time amounting to 2½ billion ounces, were dissipated.

In 1961 a group of us concerned as to the effects of the monetary practices of the government, organized the Institute for Monetary Research, Inc., which has since carried on a program of education on monetary phenomena, its basic position being the promotion of neither this nor that monetary system but the integrity of the standard. I undertook to serve as its non-salaried executive director.

Despite my interest in monetary phenomena, my livelihood is not from these activities, but for the past 34 years as a financial consultant primarily in valuation matters in which I frequently testify before the courts as a valuation expert in tax questions, stockholders' suits and other issues. I give no investment advice and have no financial interest in the legislation here under consideration.

THE DEMOCRATIZATION OF WEALTH

My basic concern is with the economic and political health of our country, and particularly the support which S. 2843 will give to the fundamental concepts on which our society rests. A premise in guiding your consideration of the bill is that of the democracy of wealth, the right of every individual, however humble, to hold property, however modest. We believe in the right of universal franchise; we reject the view that all wealth belongs to the state; we hold that personal freedom begins with the right of property. Deprive a person of his right to property and he is a slave, and any political system that attempts to put all wealth under the control of the state—as in the Soviet system—is a slave system.

Historically, the simplest item of property to come into one's possession has been a piece of precious metal, usually in the form of a coin. When governments have been concerned for the welfare of their citizens, they have made a good coinage, freely circulating, a pillar of public policy. It is more important for a government to provide its citizens with good coin than with wheat or welfare. Rome fell because it debased its coinage while it gave its citizens free wheat. Throughout the Orient, until recent times when gold coins disappeared and spurious paper circulated instead, one could see the process at work. A shoemaker, for example, plying his trade under a tree, and able to save a few coins from his day's labor, would give them to his wife who strung them about her neck or ankle as ornament until enough had been accumulated to acquire a shop. But when the shoemaker received paper that rotted in his hand, and depreciated from day to day, his avenue to independence was cut off, he became restless, and his faith in his government turned to cynicism. In the disappearance of good precious metal circulation we find the source of so much of the political unrest in the world today.

Until 1934, in this country, every individual had access to wealth in the form of gold coin. There was an immense amount of gold in the Treasury that had been accumulating since 1878 when the issue of Civil War irredeemable greenback currency terminated and gold began to flow in from all over the world. In the succeeding 30 years, the monetary gold stock increased from $245 million to $1,600 million, from $4.50 per capita to $18.50 per capita, and from 30 per cent of the money stock to 93 per cent. Though most of the gold was lodged in the U.S. Treasury, the Treasury was only a warehouse for the citizens. What circulated were gold certificates, that is, warehouse receipts, and the Treasury was simply a warehouseman for this gold that belonged to the citizen. In 1934, as I have already remarked, all this gold was sequestered by the government, contrary, in the view of many, to the plain intent of the Constitution that forbid citizens to be deprived of their property without due process of law.

FREE CIRCULATION AND OWNERSHIP OF GOLD

Now that the government has reluctantly decided to restore this gold to the citizens—at prices some ten times that a which it was seized, the only correct policy for a government that believes in the equality of its citizens is to make this gold available not in 400 ounce bars which only the wealthy can acquire, but in form most convenient to all its citizens.

I would now comment on some of the objections to the bill raised by the Treasury Department. The first, that the issue of gold pieces would weaken public confidence in the dollar, is hard to take seriously at a time when the reckless fiscal practices of the government are causing the dollar to drop steadily in the international markets and when the Treasury is actually selling gold in large bars in an effort to stabilize the exchange rate.

STABILITY OF GOLD VALUES

Second, that gold is a speculative commodity subject to violent swings in price, and the Treasury should not encourage such speculation. This is also rather ridiculous at a time of roaring gambling and speculation, and when gambling is actually being promoted by the authorities through official lotteries, and by public solicitation. What has caused this craze for speculation if not the uncertainty and instability of the dollar, which has made the legitimate pursuit of profit increasingly hard? Any commodity or security in which a few powerful traders hold a monopolistic corner is subject to fluctuations, and no doubt so long as governments control the bulk of the gold, gold prices will be subject to this manipulation. This happened in the case of the famous Patton corner in wheat of the last century. It is true of coffee in which Brazil was able to exercise dominant position. It is true of big institutional holdings of traded securities. In short, in this respect, gold differs little from other forms of wealth. The solution is to return the possession of gold to the citizens, and to spread its ownership as widely as possible.

Actually, in the longer term gold is the most stable commodity in the market because of the enormous quantity of the metal available. Of most every other commodity, fluctuations in annual production or outlook are promptly reflected in the price because seldom is there more than a year or two of supply available. An example is the tremendous fluctuation in the price of coffee following one winter's freeze in Brazil. But gold is in quite a different case. Of all the gold produced from the mines since the discovery of America, according to tabulations of the U.S. Mint, at least 40 percent is still visible and identifiable. Such a backlog of metal means that fluctuations in any year's new supply can have minimal effect on price. The major influence on price is not the economics of gold supply and demand, but government policies that either give confidence to the citizens to avoid hoarding or contrary policies that create fright and unrest and promote hoarding and demand.

SOPHISTRY OF A GOLD-DEFINED DOLLAR

Third, the Treasury's objection that to strike gold prices would be contrary to current policy of reducing the monetary role of gold.

This of course is sheer nonsense. If the Treasury really means to reduce the monetary role of gold it should ask for legislation removing the official definition of the dollar as the equivalent of so many grains of gold. No secretary of the Treasury, no administration, has dared go so far, so we may take their protestations of reducing the monetary role of gold as hypocrisy of the most blatant sort.

The fact is that until the government has become so totalitarian as to control the thoughts of the citizens, it cannot control what they will use as money. The government may deny its citizens good coinage, it may declare worthless pieces of paper as valid for so much in the payment of taxes and debts denominated in official terms, but it will not succeed in making the citizens hoard these pieces of paper in a jar as security for old age, nor will it be able to compel Arab sheiks or German businessmen to accept them as equivalent to the number of grains of gold which the law declares them to be. If one-ounce and one-half ounce gold pieces are struck they may well become, under the law as it now stands, the subject of contract and a substitute for the official legal tender. This would be a good thing. It has happened before in history—the existence of a gold currency beside a debased and depreciated coin or paper currency. It happened during and following the Civil War. If the market finds these pieces a convenience, and as more stable in the international markets, than the paper dollar, then so much the better. The result will be to encourage rather than deter trade.

Finally, the availability of gold pieces of standard weight and fineness would provide the market with a daily thermometer to record the state of the dollar. It would be a continual reminder, far better than the Tokyo or Berlin exchange rate. since these currencies are also unhinged and fluctuating, of the actual value of the dollar in terms of purchasing price, and better than a dollar measured by some artificial price index.

Sincerely yours,

ELGIN GROSECLOSE.

STATEMENT OF RICHARD E. BRUSS, LEGISLATIVE REPRESENTATIVE, LIBERTY LOBBY, BEFORE THE SENATE SUBCOMMITTEE ON INTERNATIONAL FINANCE, HEARINGS ON GOLD MEDALLION ACT OF 1978 (S. 2843)

AUGUST 25, 1978.

Mr. Robert W. Russell, Counsel, and Members of the Committee, I am Richard E. Bruss, Legislative Representative for LIBERTY LOBBY. I appreciate this opportunity to appear today and present the views of LIBERTY LOBBY's 25,000-member Board of Policy, as well as the quarter of a million readers of our weekly newspaper, The SPOTLIGHT.

In a recent letter to Senator Helms (Congressional Record, July 31), Treasury Secretary Blumenthal candidly admitted that current U.S. policy with respect to gold is to attempt to "demonetize" it. In other words, keep it in its place as a commodity but void legalizing or encouraging use as a medium of exchange.

As a member of the seemingly endless fraternity of experts who have held the Secretary's position and managed to debase our currency 80% in 20 short years, we find his views depressingly predictable. If he were a recent arrival from another planet his ignorance of historic precedent with respect to gold might be excusable. Absent this excuse, and in view of his successful background in business, he must be parroting administration ideas which even he must recognize as hogwash.

The carefully constructed rationale contained in his letter seems more designed to underscore the inherent weakness of paper money. Unintentional no doubt, but the casual reader is certainly left with the impression that our currency is vulnerable to even a "back door" monetization of gold.

The singular omission, however, is the fact that gold medallions, coins, artifacts and jewelry do exist, have existed since the metal was discovered and will continue to exist into the foreseeable future. Irrespective of form, they will continue to be used as a standard of value and medium of exchange among nations and individuals. To deny this fact is to deny history. Why not recognize it and adjust governmental policies accordingly?

Why indeed! At this point we arrive at the crux (in our view) of the argument. For the past 20 years or so succeeding governments have paid for inflation by allowing the currency to depreciate at a more or less fixed rate. As our ability to control the rate has deteriorated, so has the corresponding value of our currency, in a near straight line relationship. How embarrassing it would be to have a gold medallion of relatively fixed value as a daily reminder of governmental profligacy and lack of fiscal will. There, we believe, lies the real reason our government is against S. 2843.

We will leave it to other witnesses to debate the value of medallions as a potential medium of exchange. We must, however, strongly endorse the idea of minting U.S. medallions as an enduring affirmation of faith, not in gold, but in a system of government that does not fear gold as a competitor to its currency.

Thank you again for this opportunity to appear today and submit our views for the record.

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