1982 March 31

The United States Gold Commission, 1982: In the wake of economic crisis of the 1970s, the United States Congress established a commission to evaluate and make recommendations regarding the use of the United States' gold reserves. The Commission was divided between a monetary group, which printed the majority report rejecting a return to the gold standard, and a minority which believed a return to the gold standard was an essential component of financial stability. The excerpt printed below contains the recommendations of the Gold Commission.

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Aims of the Gold Commission

Part of our mandate is to assess the role of gold in the domestic and international monetary systems. Assessments differ among members of the Commission not only with respect to the costs and benefits in the past when our monetary system was linked to gold but also with respect to the prospective costs and benefits, were such a link restored. Given the size of the Commission that the Congress specified, and the diversity of our views, that result may not be surprising. We decided that the best service we could render the country would be to set forth in an objective way the complex issues involved and give a fair hearing to different points of view.

Another part of our mandate is to make recommendations. Though it became apparent to us during our deliberations that we would not be able to achieve a unanimous set of recommendations, on some issues, it was possible to form majorities. Even so, a majority vote in favor of a specific recommendation did not signify that all so voting had the same purposes and/or interpretations in mind. Moreover, if each of us had been reporting singly instead of as one of a body of colleagues, individual members would not necessarily have expressed themselves in precisely the way the recommendations are stated. Differences in wording, emphasis and perceptions would have been evident. In some instances our recommendations touch on technical matters, such as legal and tax considerations, that need to be studied more exhaustively than it has been possible for us to do. Such technical questions should be given attention in any Congressional hearings in connection with our recommendations.

Majority and Minority Recommendations

We report our recommendations on the following subjects:

1. The program of Treasury medallion sales
2. Treasury issue of gold bullion coins
3. Treasury issue of gold-backed notes or bonds
4. The gold stock owned by the United States
    a. The public accounting for the gold stock
    b. The relationship between gold certificates held as an asset of the Federal Reserve System and the gold held by the Treasury
    c. The appropriate size of the gold stock
    d. The price at which to value the gold stock
    e. Managing the gold stock
5. Domestic monetary policy arrangements
6. International monetary policy arrangements

With respect to most of these subjects, we first present majority views and then the minority views, with some discussion of the opposing reasons that were expressed in our deliberations,

1. The program of Treasury medallion sales

In July 1980, the Treasury began the sale of half-ounce and one-ounce gold medallions in accordance with the American Arts Gold Medallion Act of November 10, 1978 (PL 95-630). The legislation provided that not less than 1 million ounces of gold be struck into medallions each year for a five-year period and sold to the public at a price covering all costs. A different American artist is commemorated on each of the two sizes of medallions. In 1980, Grant Wood was honored on the one-ounce and Marian Anderson on the one-half ounce medallion. In 1981, Mark Twain was honored on the one-ounce and Willa Cather on the one-half ounce medallion. Under the 1980 program covering the period July 15, 1980, through February 28, 1981, less than 300 thousand medallions of each size were sold, amounting to 434 thousand gold ounces. Under the 1981 program from July 15, 198l, through February 1, 1982, about 60 thousand medallions of each size were sold, amounting to 88 thousand gold ounces.

The price of the medallions varies daily with the market price of their gold content, based on the settlement price at the end of the previous day for gold traded on the Commodity Exchange of New York, plus a surcharge in 1980 of $12 and in 1981 of $14 per ounce to cover the cost of production and marketing. The surcharge averaged about three percent of the underlying gold price.

The Bureau of the Mint sells the medallions directly to purchasers: through mail orders placed at U.S. post offices. Delivery is made weeks later.

The Treasury Department is planning a simpler and wider distribution of the medallions to be introduced this year through a network of dealers. Although details are not yet finally decided, the expectation is that sales to dealers will be made on the basis of the daily New York gold price, plus a 3 per cent markup to cover costs including advertising by the Mint. The dealers would add a comparable fee in selling to the public and develop a secondary market for the medallions.

Recommendation. <u>The Gold Commission supports the improvement of the program of medallion sales along the general lines that the Treasury plans.</u>

2. <u>Treasury issue of gold bullion coins</u>

In addition to gold medallions we discussed proposals for a Treasury issue of gold bullion coins of specified weights to be offered to the public at a price near market value. Among those who support the proposal, two conceptions of the character of the demand for such coins are evident. Some of us expect the demand for such coins to be an investment demand, similar to the demand for krugerrands, maple leafs, Mexican pesos, and other foreign coins that have found a market in this country. Others expect the demand for such coins to be (or have the potential to be) a demand for their use as money. Their value would change from day to day as the value of the gold content of the coin fluctuated in the free gold market.

Some advocates of this proposal see such coins as facilitating development of a dual monetary system, which would impose an additional degree of discipline on discretionary operation of monetary policy.

However, those opposing the proposal believe that ample supplies of gold in forms other than Treasury coins are available to satisfy the demand for gold in the private sector.

So that the new issues may compete with foreign coins, some proponents advise that the former be designated legal tender and as coin of the realm bearing the great seal of the United States, the motto "In God We Trust." In addition, they advise that changes in the dollar value of these coins should be exempt from capital gains taxation.

A Treasury issue of gold bullion coins involves technical matters, on some of which the Commission has adopted recommendations. Congress should explore the following considerations more thoroughly than was possible in our deliberations.

(a) Consideration of a quantity or a price limit on the issue of the coins. This reflects concern that the demand for the coins might exhaust the Treasury gold stock. One approach would be to specify a limit in any legislation to permit coinage. An alternative means of limiting the demand would be to set a seigniorage fee well in excess of costs of minting. Some who believe the demand for coins would be a demand for money oppose a limit. They would view large scale demand as an indication of public dissatisfaction with the management of the (dollar) money supply and as leading to de facto establishment of a gold coin standard. According to this view, establishment of an arbitrary limit would interfere with this expression of public preferences. A few others of both persuasions favor Treasury purchases of gold to replace gold it has coined. Those who believe the demand for coins would be an investment demand assume that it would not be quantitatively significant, and on this ground would neither oppose nor support a legislated limit.

(b) Enabling legislation to mint coins. Section 5 of the Gold Reserve Act (31 U. S. C. sec. 315b) prohibits the minting of United States gold coin.

(c) The implications of legal tender status for newly minted coins. Treasury Counsel prepared for us a statement on this matter related to U. S. currency [...] Legal tender status essentially requires that, in any contract that does not otherwise specify the means of payment, a debt can be discharge by the rendering of any form of U. S. legal tender. However, whenever a contract specifies a specific means of payment, such as gold, and the debtor breaches that provision and is taken to court by the creditor, the court normally awards damages rather than specific performance of the contract provision.

For some who regard the demand for coins to be an investment demand, legal tender status is an adornment for coins, but nevertheless a sine qua non for generating public acceptance of them.

For some who regard the demand as a demand (or a potential demand) for money, the implications of legal tender status require further consideration. Absent court enforcement of specific performance of contract provisions to the contrary, a creditor is bound to accept "legal tender" in satisfaction of the amounts due him. Legal tender status for gold coins could compel their acceptance by private creditors or the Treasury in satisfaction of taxes. Formidable problems, involving potential profits and losses to private creditors and debtors, could arise in assigning gold coins legal tender status at market value.

(d) The implications of capital gains exemption for changes in the dollar value of coins. What are the consequences of advocating such exemption for coins but not for gold bullion holdings or, for that matter, not for productive investments? Would legislation to prohibit local government imposition of sales taxes also be required?

(e) Issues by private mints. S. 1704 and H. R. 3789 specify Government coinage of a 5-gram, a 10-gram, a one-troy-ounce-gross and one-troy-ounce-net goldpiece. One-half by aggregate weight of all government-manufactured coins would be the small denominations. In addition, the bills authorize private mints to manufacture gold coins of any size with anyone's picture on its face to circulate as lawful money. The majority of us oppose private minting of official United States coins. We regard the production of "official" coins of a country as a governmental function. The government in effect guarantees the weight and fineness of the "official" coins issued. Private firms are perfectly free to mint gold pieces of any shape and size, so long as they do not purport to be United States coins with a U. S. Government guarantee of weight and fineness. Permission for private firms to mint U. S. coins would open possibilities for fraud and could involve the Treasury in a new and costly regulatory and monitoring function. Problems would be compounded if the Treasury had a convertibility obligation or an obligation to accept the coins in payment of taxes.

(f) Convertibility at Treasury of gold bullion coins. Of those favoring issue of coins, about half support assumption by the Treasury of an obligation to stand ready to purchase coin offered to it at the market price on the day of redemption, the conversion producing potential profits (or losses) for the Treasury. The bills mentioned above do not contain an explicit provision for convertibility but provide for use of Federal Reserve liabilities tendered in exchange for gold bullion coins to reduce the national debt.

Majority Recommendation. We favor Treasury issue of gold bullion coins of specified weights, and without dollar denomination or legal tender status, to be manufactured from its existing stock of gold and to be sold at a small mark-up over the market value of the gold content, and recommend that the Congress implement this proposal. Furthermore, we recommend that the coins shall be exempt from capital gains taxes and that the coins shall be exempt from sales taxes.

Minority Recommendation. We oppose Treasury issue of gold bullion coins.

3. Treasury issue of gold-backed notes or bonds

Several witnesses at the hearings we conducted suggested that Treasury issue of gold-backed notes or bonds would be a means of introducing gold into our monetary system. A limited issue, for example, of five-year Treasury notes with interest and principal payable in grams or ounces of gold, would provide deferred claims to gold. Successive issues in terms of gold would eventually become demand claims on gold. Initially, according to the advocates, the yield spreads between gold and inconvertible dollar obligations of the same maturities might be wide. Success in restoring long-term confidence in monetary discipline would eventually narrow the yield spreads. At that time, full gold convertibility of all dollar obligations might be contemplated. These witnesses emphasized the savings on interest payments by the Treasury, assuming the price of gold remained stable or rose only moderately, and hence a positive effect on Federal budget deficits.

In our deliberations, it was noted by opponents of gold-backed Treasury securities that a gold-backed Treasury note or bond, if convertible at maturity at the market price of gold at the date of issue, would in effect be a warehouse certificate for gold. Such an instrument would provide the owner the same chance of gain or loss as owning gold, without his incurring the cost of storage and insurance. No obvious guideline exists for pricing the instrument. A Treasury issue of gold-backed notes or bonds, paying even a low rate of interest, would permit speculation on gold with a sweetener of a coupon. Such issues would be comparable to a bond convertible into the common stock of a corporation that has a low coupon because of the possibility of speculative gain. Purchase of Treasury gold-backed issues would indicate an expectation that the price of gold would rise. The Treasury would then be betting against the market, with no assurance of gain and a major risk of Treasury losses. From a debt management viewpoint, no need exists for gold-backed Treasury issues.

Majority Recommendation. <u>We oppose the issue of Treasury gold-backed notes or bonds.</u>

4. <u>The gold stock owned by the United States Government</u>

As of March 1982, the Treasury Department reported that it held 264 million troy ounces of gold. The bulk of the gold is stored in mint depositories: Fort Knox, Kentucky, and West Point, New York; U. S. Assay Offices in New York and San Francisco; and the Denver and Philadelphia Mints. In addition, the Federal Reserve Bank of New York is the custodian of a part of the gold stock.

a. <u>The public accounting for the gold stock</u>

Citizens have written to us expressing concern about alleged unauthorized large withdrawals from gold depositories. They fear that the actual amounts held by the Government are less than are reported officially. Stories in the press also have referred to missing gold.

Public and Congressional inquiries relating to the accuracy of the accounting records and security of the gold stock were directed to the General Accounting Office (GAO) in the early 1970s. In response, the GAO conducted a partial audit of the gold bars stored at Fort Knox in September and October 1974. In its report on the audit, the GAO recommended cyclical audits of the gold in the custody of the Bureau of the Mint.

During fiscal 1975, at the direction of the Secretary of the Treasury, the Fiscal Assistant Secretary of the Treasury established the Continuing Committee for the Audit of U. S. -Owned Gold stored at various depositories, with the responsibility to conduct audits at appropriate intervals. The Committee consists of one representative each from the Bureau of the Mint, the Bureau of Government Financial Operations, and the Federal Reserve Bank of New York, with GAO representatives invited to observe the audits. As of September 198l, 79.1 percent of the U. S.-owned gold had been audited and verified. The continuing audit program is planned to provide a complete audit of all U. S.-owned gold by the end of the 10-year cycle in 1984.

The Treasury has provided us with a detailed statement of the results of the continuing audit [...]. A majority of us is satisfied with the Treasury's continuing audit, find it thorough, and believe it should allay any public concern with regard to the accuracy of the inventory, the related accounting records, and the internal controls governing the depositories. One of us, however, expressed a preference for a speedier completion of the audit.

A minority is not satisfied with an audit that spans ten years and contends that 31 U. S. C. 354 appears to require annual audits of the gold inventory. The minority disputes the Treasury's view that a 100 percent audit in a single year is not feasible, since on its own estimate of manpower requirements, 26 men could do it. The Treasury has provided us with an opinion that 31 U. S. C. 354 requires not annual audits but annual settlements of account, which are being performed regularly in compliance with this provision.

Majority Recommendation. <u>We are satisfied that the Treasury is meeting the requirements of 31 U. S. C. 354 regarding annual settlements of account and that the Treasury's continuing audit of the Government-owned gold stock provides an adequate basis for full verification of the accuracy of inventory records.</u>

Minority Recommendation. <u>The Treasury should assign adequate manpower to complete a 100 percent audit of the gold stock every year.</u>

b. <u>The relationship between gold certificates held as an asset of the Federal Reserve System and the gold held by the Treasury</u>

Some citizens have expressed the view that for the Treasury to claim ownership of the gold stock and the Federal Reserve System to show gold certificates as assets appears to be double-counting of the same asset.

The gold is the property of the U. S. Government. The certificates do not represent Federal Reserve ownership of the gold.

Gold certificates, which are valued at $42.22 per ounce of gold, are issued to the Federal Reserve by the Treasury against its gold holdings. The certificates represent a Federal Reserve claim on the assets of the Treasury, for which the Treasury has received a counterpart deposit in its account with the Federal Reserve

As all gold held by the Treasury has been monetized in this fashion, the Federal Reserve Banks' gold certificate account represents the nation's entire gold stock. New gold certificate credits may be issued only if additional gold is acquired by the Treasury or the statutory price at which gold certificates may be issued is increased. Similarly, gold certificates must be retired by the Treasury upon the sale of gold, with a corresponding decline in the Treasury's deposit balance.

Recommendation. <u>We believe that the Treasury and Federal Reserve are following appropriate procedures in reporting Federal Reserve claims on the Treasury represented by gold certificates and payable in dollars.</u>

c. <u>The appropriate size of the gold stock</u>

At year-end 1949, the U. S. gold stock was a little over 700 million fine troy ounces. At year-end 1967, the stock was about 50 per cent smaller — 345 million ounces. As already noted, it is now 264 million ounces.

One question we discussed was the appropriate size of the gold stock—a non-interest bearing asset of the Treasury. All of us agree that a zero stock is not the appropriate size and therefore oppose auction sales which are intended to dispose of Treasury holdings over some stated period of years.

A minority prefers that the Treasury maintain the present stock as an important strategic and monetary resource. The view is consistent with the belief that an increase in the monetary role of gold is not now timely but the stock should be held as a reserve for possible future use, should a restored role for gold then appear feasible, or against other contingencies. In support of this view, it was suggested to us that should an international monetary conference of free world nations be convened to recommend changes in the international monetary system, it would be useful for the United States to hold a substantial gold stock to influence possible future deliberations and to be in a strong position if gold's role were reestablished.

A variant of that view, held by a majority of us, is that some depletion of the gold stock, for example, for the issue of medallions or coinage, is acceptable but to a limited extent only.

Majority Recommendation. We <u>recommend that, while no precise level for the gold stock is necessarily "right," the Treasury retain the right to conduct sales of gold at its discretion, provided adequate levels are maintained for contingencies.</u>

Minority Recommendation 1. <u>We are opposed to auction sales of the gold stock held by the Treasury and recommend that under circumstances such as those that presently exist the stock be maintained at its present</u>

d. <u>The price at which to value the gold stock</u>

By statute, the Treasury currently values the gold stock it holds at $42.22 per ounce. Since the free market in gold was established in 1968, the price has fluctuated between $35 and $850 per ounce. It is currently priced at under $400 per ounce.

One argument for revaluing the gold stock at a price closer to the market price is that it would enable the Treasury to raise revenues by sale of part of its gold. The revenue could be used to retire debt, thus saving interest payments on outstanding Treasury securities, or to finance the current Federal budget deficit. All these objectives are attainable simply by selling gold at the market price, and so there is no cogency to this argument for revaluing the gold stock. The same comment applies to the suggestion that an advantage of an international agreement to value gold at the market is that it might be a step forward gold becoming an accepted international medium for payment of balance of payments disequilibria, and that it could also be used for intervention purposes in foreign exchange markets to influence the exchange rate of the dollar.

Another argument is that it is unrealistic to value the gold stock at an outdated fixed price. Doing so distorts the true significance and cost of the U. S. gold asset position.

We regard the choice of a price at which to revalue gold reserve assets as independent of a decision on the price at which to restore a gold standard. One proposal was made during our deliberations for a gradual increase in the statutory price of gold to a price closer to the market price. The proposal was incidental to a plan to require gold certificate reserves be kept behind Federal Reserve notes [...] No other proposal with respect to the determination of a price at which to revalue gold reserve assets was brought to our attention.

Majority Recommendation. <u>The Commission recommends that the Treasury and the Federal Reserve conduct studies of issues that would be involved in a move towards valuing gold realistically, at something more closely approximating market prices. This change should be subject to the legislative constraint that the proceeds of this new valuation not be monetized by the Treasury or in any way used to enhance the government's spending power. The studies should develop a formula and timetable for valuing U. S. gold stocks in a manner realistically related to gold market value.</u>

Minority Recommendation. <u>We are opposed to revaluing the United States gold stock at a higher price.</u>

e. <u>Managing the gold stock</u>

One general proposition that we examined is the desirability of finding constructive uses of the gold stock rather than keeping it immobile, as is currently the case. Specific suggestions we considered included:

(1) The United States should offer swaps, leases and make other commercial arrangements with respect to its gold stock in order to generate a modest revenue flow.

(2) If revalued, gold should be used for intervention purposes in foreign exchange markets and for settlement of the balance of payments (see subject 4d. above).

(3) The Federal Reserve System should engage in open market operations using gold as well as the government securities.

In our discussion of the general proposition, it was noted that some of the suggestions would tend to increase the demand for gold and thus raise its price. Yet there are grounds for the belief that should the United States fix a price at which to restore the traditional gold standard, the price would have to be lover than the current market price [...] If the price in the market did not fall once the intention to fix it became known, that would indicate the market's skepticism that the price could be maintained. The sum of the suggested uses would inhibit, rather than promote, a return to the gold standard at a fixed price.

Moreover, if any of the suggested uses of gold yielded a profit, use of the profit to retire public debt or to spend it for budgetary purposes might encourage fiscal imprudence.

Majority Recommendation. <u>We do not favor unconventional uses of the gold stock, since the objectives sought by adding gold to the policy instruments of the monetary and fiscal authorities are attainable without such use and the side effects of so using gold may be undesirable. We do favor continued study of the role of gold in the monetary system and recommend that Congress hold hearings on the subject.</u>

Minority Recommendation. <u>The Commission recommends that the Federal Reserve and the Treasury conduct studies to consider different ways in which gold can be used as a helpful policy instrument. It seems implausible to keep our vast stocks of gold completely idle, if worthwhile uses can be developed which do not entail depleting those stocks.</u>

5. <u>Domestic monetary policy arrangements</u>

Currently, transactions in gold are not used in the implementation of monetary policy by the Federal Reserve System. Gold certificates are carried as an asset of the Federal Reserve and therefore comprise one element in the sources of the monetary base. However, the Federal Reserve does not use its holdings of these certificates as a device for changing the base.

We considered a number of alternatives that would serve to reintroduce gold into our domestic monetary policy arrangements. The objective would be to improve monetary control through the discipline of gold for the purpose of reducing inflation. Linking changes in the growth rate of money or of some component of money, such as Federal Reserve notes, or of bank reserves, to the change in the gold stock is one approach which was considered for imposing the discipline of gold.

One way to reintroduce gold would be to require the Federal Reserve System to maintain a minimum ratio between the U. S. Government's gold stock and the Federal Reserve monetary base (i.e., Federal Reserve notes plus bank reserves) or some monetary aggregate. A variant would fix upper and lower limits to the ratio, so that the System would be required to take expansionary actions when the ratio was at its upper limit, or contractionary actions when the ratio was at its lower limit. The gold cover requirement might be valued at the official price of $42.22, or adjusted gradually, or allowed to fluctuate with market prices.

Along traditional gold-standard lines, the United States could define the dollar as a specified weight of gold (that is, fix the price of gold), set gold cover requirements for the Federal Reserve System, and allow the value of the gold stock to be determined by gold flows. If the value of the gold stock rose, the Federal Reserve would be required to undertake actions to expand the money stock. If the value of the gold stock declined, it would be required to take contractionary actions.

Since the decade of the 1970s, not only in the United States but also in other industrialized nations, monetary authorities have experimented with self-imposed rules of conduct of monetary policy, sometimes expressed as target rates of growth of money. Long-term monetary discipline, not linked to gold, has been the objective. A variant of this approach would impose such discipline by legislative prescription, that is, a monetary rule.

Although some opposition was expressed to consideration of domestic monetary arrangements not linked to gold as overstepping the Gold Commission's mandate, in fact we discussed all the foregoing alternatives. In addition, we considered continuation of our present domestic monetary arrangements, under which the Federal Reserve exercises full discretion with respect to monetary actions and chooses the target rates at which it plans to increase different monetary aggregates, reporting to several Congressional committees both its plans and their results.

The majority of us believes that a return to the gold standard is not desirable. Even if that were not our view, for most of us there are two major problems in contemplating the feasibility of a return to a domestic gold standard. One is the absence of a sound guide on how to determine the fixed dollar price of gold at which resumption of a gold cover requirement could be introduced. The other one is the absence of a sound guide on the extent of feasible convertibility of domestic dollar obligations.

Majority Recommendation. <u>The Commission recommends that Congress and the Federal Reserve study the merits of establishing a rule specifying that the growth of the nation's money supply be maintained at a steady rate which</u> insures long-run price stability. In addition, the Commission concludes <u>that, under present circumstances, restoring a gold standard does not appear to be a fruitful method for dealing with the continuing problem of inflation. The Congress and the Federal Reserve should study ways to improve the conduct of monetary policy, including such alternatives as adopting a monetary rule.</u>

Minority Recommendation. <u>We favor the restoration of a gold standard with a fixed price of gold. It is the means to achieve discipline in the U. S. money base which will then increase or decrease with gold purchases and sales by the monetary authorities.</u>

The Commission was evenly split on the following proposal:

"Whereas the majority of those who supported the creation of the Gold Commission did so with the hope of finding a method for better insuring consistent and persistent price stability and;

Whereas the inflationary process is ultimately related to excessive growth in money and;

Whereas it is clear that inflation cannot persist over the long run in the absence of excessive monetary growth then;

The Commission recommends that the Congress by legislation establish a rule specifying that the growth of the nation's money supply be maintained at a steady rate which insures long-run price stability."

6. International monetary policy arrangements

We discussed a number of aspects of international monetary arrangements during our deliberations.

Under present conditions, the exchange rate of the dollar is determined in foreign exchange markets by the demand for and supply of dollars and also by the demand for the supply of other currencies. The foreign exchange value of the dollar floats, changing from day to day as market influences (or government interventions) determine. We noted above in connection with subject 4d. that the majority of us oppose using monetary gold revalued at current market prices to intervene in foreign exchange markets.

Adopting a gold standard with a fixed price of gold in terms of dollars would fix exchange rates between the dollar and the currencies of those of its trading partners who also fixed the price of gold in terms of their currencies. Those who support a system of fixed parities argue that it facilitates international trade and finance and, along with convertibility of the U. S. dollar to gold, would promote the goal of internal price stability.

Under present conditions, deficits or surpluses in our balance of payments are settled in dollars automatically. Even though dollars are not convertible into gold at a fixed price, they are convertible into U. S. goods and services including gold at market prices. Other countries and their residents continue to use dollars as an intervention currency in foreign exchange markets, in payments and receipts for international transactions, and as a reserve asset. We do not use our gold in payments and receipts for international transactions and neither do our trading partners.

Most of us believe that even if other countries with substantial gold stocks and the major gold-producing countries were to agree with us on a restoration of an international gold standard, the United States — and the system as a whole — would confront an as yet unsolved problem of the vast quantity of dollars world-wide with potential claims to gold convertibility. We are not in fact aware of international interest in restoring a gold standard. Indeed, a number of foreign officials have expressed negative views towards a gold standard.

One other question we discussed was the desirability of taking steps to seek a restitution of the gold that the United States and other member countries subscribed to the International Monetary Fund (IMF). The United States would be entitled to buy up to 23. 6 million ounces of gold from the IMF at SDR 35, or approximately $40 per ounce at time of writing, if by an 85% vote of the IMF Executive Board a decision were taken to sell gold for currency to members of the IMF in proportion to their IMF quotas as of August 1975.

The argument for such a restitution of IMF gold to its members is that currently gold has no central role in the international monetary system and no longer serves as the common denominator of a par value system or as the unit of value of the SDR; its official price has been abolished; members of the IMF have no obligation to use gold in transactions with the IMF; and the IMF is prohibited from accepting gold unless approved by an 85% vote of its members. The 1976-80 program of IMF gold sales also attests to the intention to establish a diminished role for gold in IMF resources.

The argument against seeking such gold restitution by the IMF is essentially the same one that underlies the belief that the United States should retain significant gold holdings. If gold is an important strategic and monetary resource for the United States, it should also be so regarded by the international community, and retained by the IMF for possible use in various contingencies.

Majority Recommendation 1. <u>We favor no change in the flexible exchange rate system. In addition, we favor no change in the usage of gold in the operation of the present exchange rate arrangements.</u>

Minority Recommendation 1. <u>We support fixed exchange rates for the U. S. dollar to be introduced at the earliest possible date.</u>

Majority Recommendation 2. <u>We oppose action by the United States to seek a restitution of IMF gold to member countries.</u>

Minority Recommendation 2. <u>We support taking steps to seek a restitution of IMF gold to member countries. One of us believes the recommendation should be considered, with the proceeds to be distributed by the IMF partly to less developed countries. Another one of us would use the additions to U. S. gold stocks for coinage by the U. S. Treasury.</u>

<u>Conclusion</u>

In presenting our report, we are conscious of the complexity of an attempt to define what the role of gold should be in the domestic and international monetary systems.

The majority of us at this time favor essentially no change in the present role of gold. Yet we are not prepared to rule out that an enlarged role for gold may emerge at some future date. If reasonable price stability and confidence in our currency are not restored in the years ahead, we believe that those who advocate an immediate return to gold will grow in numbers and political influence. If there is success in restoring price stability and confidence in our currency, tighter linkage of our monetary system to gold may well become supererogatory.

The minority of us who regard gold as the only real money the world has ever known have placed our views on record: The only way price stability can be restored here (indeed, in the world) is by making the dollar (and other national currencies) convertible into gold. Linking money to gold domestically and internationally will solve the problem of inflation, high interest rates, and budget deficits.

We have made no attempt to conceal the divisions among us. In that respect, our views probably represent the range of opinions held by the country at large. We hope, nevertheless, that our report will make a contribution to public understanding of the important issues involved. In that event, the time we have devoted to preparatory study before our meetings and to the deliberations themselves will have been well spent.

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Source*: Report to the Congress of the Commission on the role of gold in the domestic and international monetary systems*, Vol 1, (Washington: Government Printing Office, 1982), page 3-25.