ECONOMIC EDUCATION BULLETIN

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THE POCKET MONEY BOOK

A Monetary Chronology of the United States

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INTRODUCTION

Many changes have shaped the Nation's monetary system since its inception. This brief chronology of some of the major events in our monetary history largely speaks for itself, and hopefully it will be useful as a handy reference.

It should be noted, however, that the present regime of fiat money provides no restraint on the politicians' and monetary authorities' powers to debase the currency — and in this respect represents an exceptional period in the history of the dollar. Indeed, today's monetary system is precisely what the founding fathers feared most and sought to prohibit Constitutionally.

Beyond the outright corruption of the Nation's monetary unit via direct legislation and executive order, under a fiat money regime many other actions of Government assume far greater monetary significance than they would under a system backed by monetary metals. Many events listed for the years since 1971, such as those involving Federal deposit insurance and other contingent liabilities of Federal agencies, have severe monetary implications that the lawmakers failed to consider (at least publicly).

One of the most striking features of the recent chronicle is the abysmal failure of the Nation's monetary officials to stem the very rapid debasement of the currency, even though they claim marked success. It may give some comfort that for the past 15 years, citizens have legally been able to hold gold as a protection against the eroding purchasing power of the dollar. In the long run, gold has virtually always reasserted its function as money when currencies became worthless.

Given the lengthy history of the dollar, which for nearly a century and half retained purchasing power at roughly the same level, 15 years is a very short time. As the events listed here may suggest, in the relatively short-term the gold markets may be buffeted sharply by monetary uncertainty, especially when the public remains largely ignorant (or unconvinced) of the danger posed by politically controlled money. Even so, in that 15 years the purchasing power of gold increased about 22 percent, while that of the dollar decreased nearly 60 percent. In short, it is a matter of record — unchallenged throughout more than two centuries of our own history — which is the better "money."

U.S. Monetary Highlights*

1775 Continental Congress authorizes paper dollars (Continentals). [3]

1789 The Constitution empowers the Federal Government to coin money. [3]

1792 Coinage Act of 1792 permits free coinage of gold and silver. [3]

1806 Coinage of silver dollars suspended. [3]

1849 Coinage of gold dollars begins. [3]

1862-1863 Legal Tender Acts authorize Government paper money. [3]

1863 National Bank Act ends circulation of state banknotes. [4]

1871-1884 Supreme Court upholds Legal Tender Acts. [4-5]

1873 Coinage Act of 1873 defines the dollar as a weight of gold. [4]

1875 Specie Resumption Act authorizes redemption of greenbacks. [4]

1879 Greenbacks return to full convertibility. [4]

1900 Gold Standard Act places U.S. dollar on official gold standard. [5]

1913 Federal Reserve System is created. [5]

1933 President Roosevelt declares "bank holiday." [5]

1933 Domestic gold standard is abandoned. [6]

1933 Executive Order 6102 confiscates gold holdings. [6]

1934 Gold Reserve Act authorizes devaluation of dollar on foreign exchange. [6]

1935 Supreme Court upholds abrogation of gold claims on Government certificates and private contracts. [6]

1944 Bretton Woods agreement establishes new international monetary system of fixed exchange rates. [7]

1958-59 United States pays out 95 million ounces of gold to meet dollar claims of foreigners. [7-8]

1961 International "gold pool" created. [8]

1961 President Eisenhower prohibits American ownership of gold anywhere in the world. [8]

1968 Congress removes all bullion reserve requirements for Federal Reserve notes. [10]

1971 President Nixon closes the "gold window." [11]

1973 The dollar is officially devalued from $38 to $42.22 per ounce of gold. [12]

1974 U.S. citizens permitted to hold gold in any form. [14]

1978-80 United States sells gold reserves at public auction. [18-21]

1980 Depository Institutions Deregulation and Monetary Control Act initiates financial deregulation and monetary "management." [26]

1980 U.S. Treasury commences mintage of gold medallions. [27]

1980 Gold Study Commission created. [27]

1985 Gold Bullion Coin Act of 1985 authorizes mintage and issue of legal tender gold coins. [38]

* Bracketed numbers indicate page or pages of text on which item appears.

A Brief History of Monetary Legislation Before World War II

May 10, 1775 The Continental Congress authorized the printing of Continental fiat dollars, whose purchasing power quickly eroded to a fraction of their face value.

May 31, 1781 Continental currency ceased to circulate as currency, but became an article of speculation.

1789 The Constitution empowered Congress with the authority to coin money, but did not specifically grant the power to declare any money "legal tender" or to issue paper currency. It also prohibited the states from issuing paper currency.

February 25, 1791 Congress chartered the First Bank of the United States, which was authorized to issue paper money.

April 2, 1792 Congress passed the Coinage Act of 1792, which provided for the free coinage of both gold and silver in the mint ratio of 15 to 1. The U.S. dollar was officially defined as 371.25 grains of silver. The U.S. Mint began operation, with silver coins first issued in 1794 and gold coins first issued in 1795.

1806 The Coinage Act of 1806 suspended the coinage of silver dollars.

June 28, 1834 The Coinage Act of 1834 became law. According to the provisions of the Act, the content of U.S minted gold coins was reduced 6.67 percent; as a consequence, silver was undervalued at the mint.

March 3, 1849 Congress passed the Coinage Act of 1949, which authorized the coinage of gold dollars and $20-dollar gold Double Eagles.

February 21, 1853 The Coinage Act of 1853 became law. According to its provisions the silver content of all fractional silver coins was reduced 6.9 percent; silver henceforth could be coined only on Government account rather than freely as had been the case; and the legal-tender power of silver coins was reduced to amounts not in excess of $5.00.

February 28, 1862 Congress passed the first Legal Tender Act, legislation that authorized the Government to issue non-interest bearing legal-tender notes. The initial legislation authorized the issue of $150 million in such notes, the issue of $500 million in interest-bearing bonds (known as "5-20's" since they were redeemable after 5 years and were payable in 20 years), and the creation of a sinking fund. Despite opposition, several subsequent Acts between July 1862 and July 1863 authorized additional issues of new "greenbacks." Collectively, the legislation became known as The Legal Tender Acts. By June 30, 1864, some $431 million in greenbacks were in circulation.

March 3, 1863 The National Bank Act of 1863 became law. It provided for the establishment of banks under United States charters, which was designed to achieve two related purposes: (a) to provide a uniform bank-note currency under Federal auspices, and (b) to insure a bankers' market for United States Government obligations. Henceforth, the new national banks had to purchase Government securities as backing for any banknotes they issued. On March 3, the Act was amended to impose a 10 percent tax on banknotes issued by state banks, effectively removing them from circulation.

February 1870 The U.S. Supreme Court, in its decision in *Hepburn v. Griswold*, declared the legal tender laws unconstitutional under Fifth Amendment protections against the taking of property without just compensation.

May 1871 The Supreme Court reversed its earlier ruling in *Hepburn v. Griswold*, affirming in *Knox v. Lee* the constitutionality of the legal tender laws. Legal tender laws favored debtors who were thus enabled to pay their debts in greenbacks rather than gold or silver.

February 12, 1873 Dubbed the "Crime of '73" by silver interests, Congress passed the Coinage Act of 1873. This act reorganized the U.S. Mint as Bureau of the Department of the Treasury and redefined the dollar as a weight of gold rather than silver. At the same time, it ended the minting of silver dollars and discounted the silver half-dime, the three-cent piece, and the bronze two-cent piece. Other silver coins were increased slightly in weight — the half-dollar by 0.9 grains, and the quarter and dime proportionally.

January 14, 1875 Congress passed the Specie Resumption Act, providing that greenbacks issued during the Civil War become redeemable in gold as of January 1, 1879. Outstanding greenbacks rapidly returned to par value following the passage of the legislation.

February 28, 1878 Congress passed the Bland-Allison Silver Purchase Act over President Hayes's veto on the same day. The Act directed the Secretary of the Treasury to buy at the market price not less than $2 million nor more than $4 million worth of silver per month. The bullion so acquired was then to be coined into legal-tender standard silver dollars of the old weight and fineness.

January 1, 1879 The Specie Resumption Act became effective, and specie payments were resumed.

1884 In *Juilliard v. Greenman* the Supreme Court upheld the constitutionality of legal tender notes issued during peacetime, stating that "Congress is authorized to establish a national currency, either in coin

or in paper, and to make that currency lawful money for all purposes, as regards the national government or private individuals."

July 14, 1890 Congress passed the Sherman Silver Purchase Act. This legislation required that the Secretary of the Treasury purchase four and a half million ounces of silver monthly at the prevailing market price. Further, it required that the silver so purchased be paid for by issuing full legal-tender Treasury notes. These notes were redeemable in either gold or silver at the discretion of the Secretary of the Treasury. The silver acquired under the act was to be coined into standard silver dollars as rapidly as was necessary to provide for the redemption of the notes.

November 1, 1893 Following the Panic of 1873 during the spring, Congress repealed the Sherman Silver Purchase Act, returning the coinage to a bimetallic basis.

March 14, 1900 Congress passed the Gold Standard Act, which placed the United States monetary system on an official gold standard. According to this Act, a gold reserve of $150 million was created by the Treasury for the redemption of greenbacks or Treasury notes, which could be reissued only in exchange for gold.

December 23, 1913 President Wilson signed into law the Federal Reserve Act, which created the Federal Reserve System responsible for issuing the national currency. The Federal Reserve Act subsequently has been amended repeatedly.

April 23, 1918 Congress passed the Pittman Silver Purchase Act. It authorized the disposal of silver, the withdrawal from circulation of the silver certificates that represented silver dollars and the substitution of Federal Reserve banknotes. It further provided that for each dollar sold another should be coined from domestically produced silver for which not more than $1 per ounce be paid.

February 27, 1932 Congress passed the Glass-Steagall Act. Among other things, this legislation permitted Federal Reserve banks to pledge as security for their notes in circulation, U.S. Government securities in addition to rediscounted commercial paper. The association between the issuance of purchasing media and the genuine needs of business for it was broken.

March 6, 1933 President Roosevelt declared a "bank holiday" from March 6 through March 9, during which time banks were not to permit the "withdrawal or transfer in any manner or by any device whatsoever, of any gold or silver coin or bullion or currency or take any other action which might facilitate the hoarding thereof...."

March 9, 1933 Congress passed the Emergency Banking Act, empowering the President with a wide range of monetary powers, providing that "during time of war or during any other period of national emergency declared by the President, the President may ... prohibit ... export, hoarding, melting, or earmarking of gold or silver coin or currency, by any person within the United States or any place subject to the jurisdiction thereof."

April 5, 1933 President Roosevelt issued Executive Order 6102, which decreed that all individuals, partnerships, and corporations deliver to the Federal Reserve System on or before May 1, 1933 all gold coin, bullion, and gold certificates owned by them. A few exceptions were granted, including gold earmarked for official foreign institutions.

The Presidential proclamations of March and April 1933 not only eliminated official domestic redeemability of the Nation's currency but also, by prohibiting gold ownership, prevented even unofficial redeemability that would be possible if residents were free to exchange currency for gold at whatever rate they could obtain in the open market. In 1934, the Federal Government ceased printing gold certificates of any kind.

January 30, 1934 Congress passed the Gold Reserve Act of 1934, which authorized the President to declare a new gold content or equivalent of the dollar somewhere between the limits of 50 percent and 60 percent of its former content of 25.8 grains of standard gold or 23.33 grains of fine gold. Subsequently, the President devalued the dollar to 13.71 grains of pure gold, a reduction of 41 percent.

June 19, 1934 The Silver Purchase Act of 1934 obligated the Treasury to buy silver until one of two objectives had been achieved: (a) that the silver reserve constituted 25 percent by value of the Treasury's total specie reserve; or (b) that the market price of silver reached its mint value of $1.29 per ounce. The Act also authorized the Secretary of the Treasury to regulate or prohibit the acquisition or transportation of silver or silver-based contracts.

1935 In three decisions (*Perry v. United States, Norman v. Baltimore and Ohio Railroad Company*, and *Nortz v. United States*), the Supreme Court upheld the constitutionality of Congressional Acts or Presidential Orders that (1) declared that a holder of a United States bond payable in gold need not be paid in gold as the bond required, (2) outlawed private contracts requiring payment in gold, and (3) declared that holders of gold certificates of the United States were not entitled to receive gold for them even though the certificates contained such a promise to pay.

Recent Background

During July 1944, representatives of 44 nations conferred at Bretton Woods, New Hampshire, to discuss the postwar international monetary system. The Articles of Agreement adopted there proposed the creation of two international institutions, the IMF (International Monetary Fund) and the World Bank (International Bank for Reconstruction and Development). The articles were signed by the requisite number of countries and took effect on December 27, 1945. The IMF and the World Bank commenced operations in 1946.

Briefly, the stated purposes of these organizations were to establish and maintain exchange stability among currencies and to promote and facilitate the expansion of world economic activity and trade. A key aspect of the system was the role of the dollar as a "reserve currency" that, because it was convertible into gold a $35 per ounce, would be used by other nations to settle their international obligations.

Viable parities (official exchange rates) for major European currencies were not established for several years. Following the devaluation of the pound sterling in 1949 and the recovery of the war-torn economies of Germany, France, and Italy, many forms of exchange controls were abolished. Subsequently, the system developed during the 1950's generally along the lines suggested by the participants at the Bretton Woods Conference. Member nations of the IMF "pegged" the exchange values of their currencies to within 1 percent of their official values in terms of gold and the U.S. dollar. Nations that faced temporary problems in this task obtained funds from the pool of gold and currencies contributed to the IMF by members. Devaluations and revaluations reflecting "fundamental disequilibria" were relatively infrequent, at least in relation to recent experience. The convertibility of the dollar into gold seemed assured, inasmuch as the United States entered the period with a very large stock of gold. At the end of 1949 the U.S. stock of gold (about 700 million ounces, equivalent to $24.6 billion at $35 per ounce) comprised nearly 70 percent of the total gold holding of all free-world governments and central banks.

The 1950's

1950-57 The United States incurred a cumulative BOP (balance of payments) deficit of $10.3 billion during these years. Foreigners evidently were largely content to increase their holdings of dollar claims, for only 1.7 billion dollar claims were redeemed for about 50 million ounces of gold during these 8 years.

1958-1959 The United States paid out about 95 million ounces of gold during these 2 years to redeem 3.3 billion of dollar claims held by foreigners, mainly official institutions. The U.S. BOP deficit totaled $7.2 billion during these 2 years.

The 1960's

1960 The U.S. BOP deficit did not diminish during 1960, and demand on the London gold market increased markedly. In October, demand for gold so exceeded supply that the price of gold in London reached $41.00 per ounce before the U.S. Treasury arranged to supply gold to the market through the Bank of England. Reportedly, substantial orders for gold originated with U.S. residents. By the end of 1960, the U.S. gold stock had decreased to about 500 million ounces, or $17.5 billion.

1961-65 During this period, the U.S. Government adopted several measures intended to improve the Nation's BOP position and to bolster the U.S. dollar in terms of gold and of foreign currencies. On January 14, 1961 President Eisenhower, as one of his last acts as President, prohibited U.S. residents from owning gold anywhere in the world. Curbs (such as the "Interest Equalization Tax"" in July 1963 and the "Voluntary Foreign Credit Restraint Program" and "Foreign Direct Investment Controls" in February 1965) were placed on U.S. investments abroad, and programs to stimulate U.S. exports were instituted. BOP deficits persisted, however, and totaled about $12.8 billion during these 5 years. During this period another 106 million ounces of gold were paid out by the United States.

The Interest Equalization Tax taxed foreign securities sold in the United States (up to 1.5 percent of the principal, or 10 to 15 percent or so on the interest or dividends) to discourage the export of American capital. The Voluntary Foreign Credit Restraint Program involved a *request* that U.S. financial institutions restrict capital outflow by limiting loans to foreigners and limiting the acquisition of foreign investments. Foreign Direct Investment Controls consisted of a request that large U.S. corporations increase their exports, increase the repatriation of their earnings from developed countries, and reduce their capital outflow.

Early 1961 The United States and seven major European nations formed the "gold pool" in order to stabilize the price of gold near $35 an ounce on the London market. The gold pool was successful in preventing a recurrence of marked price increases, such as those of October 1960, through sales of bullion in the London market by the gold-pool members whenever demand rose to the point of pushing up the price of gold. After a brief period of such sales, upward pressure on the price of gold eased, and official total monetary gold stocks increased during the period.

August 8, 1961 The IMF lent Great Britain the equivalent of $1.5 billion in the currencies of the United States, West Germany, France, Italy, the Netherlands, Belgium, Japan, Canada, and Sweden in order to avert a foreign-exchange crisis. The IMF replaced one-third of the amounts of the currencies lent by purchasing them from the individual countries with gold. Inasmuch as $450 million of U.S. currency was involved, $150 million worth of gold was transferred to the U.S. Treasury from the IMF for dollar claims. Officials of Great Britain assured the IMF that they would follow appropriate policies to reduced the rate of price increases in that country, which had been 2.7 percent during the year ending in June 1961. The exchange value of the British pounds at that time was $2.81.

January 5, 1962 The finance ministers of Belgium, Canada, France, Italy, Japan, the Netherlands, Sweden, Great Britain, the United States, and West Germany established a program administered by the IMF called General Arrangements to Borrow (GAB). Under this program they declared their countries ready to lend the equivalent of a total of $6 billion in their respective currencies to any member of the group. However, these funds were to be available only "when supplementary resources are needed to forestall or cope with an impairment of the international monetary system." This group of nations later became known as the Group of Ten (G-10).

February 13, 1962 The Federal Open Market Committee of the Federal reserve Board voted to allow the Federal Reserve banks to intervene in foreign-exchange markets in order to reduce short-term disruptions in these markets. A principal method of intervention was through reciprocal currency arrangements (swaps) that permitted the Federal Reserve banks to borrow temporarily currencies of other nations. Such currencies then could be used to purchase dollars, and those purchases were expected to reduce foreign-exchange selling pressure on the dollar.

March 1965 With U.S. gold holdings reduced to about 425 million ounces, Congress removed the requirement that the Federal Reserve banks maintain a 25-percent reserve of gold certificates against member bank deposits. A reserve requirement was retained for Federal Reserve notes (currency).

May 12, 1965 The IMF lent Great Britain the equivalent of $1.4 billion in the currencies of several nations. Some of the currencies so obtained were used to repay direct loans that those countries had made to Great Britain in 1964. Officials of some European nations refused to extend direct loans to Great Britain, but they did lend their currencies to the IMF for relending to that country. Officials of other European countries demanded payment in gold from the IMF for some of the currencies. Consumer prices in Britain had risen 4.5 percent during the year ending March 1965. The exchange value of the British pound in May was $2.79.

1966-March 1968 During 1966 private demand for gold began to exceed production, and official holders were forced to sell from their aggregate holdings. The gold pool members had to supply increasing amounts of gold to the London market to keep the price close to $35 per ounce. During this period, world official monetary gold holdings decreased 85 million ounces (more than $3 billion). Nearly half this decrease occurred during early 1968. On March 17, 1968 the members of the gold pool discontinued operations, and the London gold market was closed. When gold trading in London resumed in April, a "two-tier" market was established. One "tier" consisted of transactions among governments and central banks which continued at the official "price" of gold. Private transactions occurred in the other "tier" at prices determined by private supply and demand. The gold pool members declared no only that they no longer would supply gold to the private market but also that gold purchases would be discontinued "as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights...." Newly mined gold thus had to be sold in the private market.

January 1, 1968 The "Foreign Direct Investment Program" was instituted in the United States, making mandatory some of the foreign investment curbs that previously had been voluntary. Aspects of the program limited the amount of new direct investment in foreign subsidiaries or branches, required that a minimum share of corporations earnings from foreign subsidiaries be repatriated, and required that short-term financial assets held abroad be reduced to at least the average level of 1965-66.

March 18, 1968 With U.S. gold stocks reduced to about 300 million ounces, Congress removed the 25-percent reserve requirement for Federal Reserve notes. This action severed the last mandated restriction between the Nation's money supply and its stock of gold.

December 30, 1969 In a reversal of the policy announced when the "two-tier" market was established, the IMF announced an agreement to purchase newly mined South African gold (thereby establishing a method for increasing the world's official stock of monetary gold) at $35 per ounce if the market price fell to $35 or less. the agreement also provided that the South African central bank could sell gold on the free

market from its official reserves to meet foreign-exchange requirements, regardless of the free market price.

1970 Through 1974

January 1, 1970 An allocation of 3.4 billion SDRs (Special Drawing Rights) was made to members of the IMF. SDRs were specified as 1/35th of an ounce of gold, the equivalent to one dollar each, but they were not convertible into gold. Subsequent SDR allocations of 3.0 billion each were made at the beginning of 1971 and 1972.

May 1971 For several months in early 1971, the effort to maintain the official parities between the U.S. dollar and several European currencies, particularly the Deutsche Mark, had required massive purchases of dollars by European monetary authorities. The Bundesbank (West Germany's central bank) purchased approximately 9 billion dollars during the first 4 months of 1971. Early in May, speculation regarding the possible revaluation of the "stronger" European currencies and/or the devaluation of the dollar became intense. During the 2 days and a few hours before the German authorities halted currency trading on May 5, the Bundesbank purchased an additional 2.3 billion dollars. On that date, the central banks of Switzerland, the Netherlands, Belgium, and Austria also discontinued purchases of the dollar. Later in the month several countries revalued their currencies, but the exchange rates of the Mark and the Dutch gilder "floated," that is, their exchange rates were determined by supply and demand, with official intervention occurring only at unspecified and unpredictable times and rates.

August 15, 1971 President Nixon unilaterally closed the "gold window" by refusing to have the Treasury redeem in gold any foreign-held dollars. At that time, the U.S. monetary gold stock totaled about 292 million ounces (which decreased to 274 million ounces after February 1972, when the United States honored a repurchase agreement with the IMF). At $25 per ounce, these holdings had a value of $9.7 billion. Short-term liabilities to foreigners then were estimated to total about $60 billion, about two-thirds of which were owed to foreign official institutions.

The repudiation by the United States of its obligation to redeem dollar claims in gold marked the collapse of the Bretton Woods system. The monetary gold reserves of all the countries of the world were effectively immobilized by that action.

August 23, 1971 Official exchange rates of all major currencies except the Japanese yen were abandoned; the currencies began to "float." The yen began floating on August 28.

December 18, 1971 The finance ministers of the G-10 countries met in Washington and agreed to set new parities among their currencies. Additional features of this "Smithsonian Agreement" included (1) a widening of the permissible fluctuations of these currencies from plus or minus 1 percent of par value to plus or minus 2.25 percent and (2) a devaluation of the U.S. dollar from $35 to $38 per ounce of gold. (U.S. gold assets were not revalued to $38 per ounce until May 8, 1972, pursuant to the Par Value Modification Act approved March 31, 1972.) The dollar remained inconvertible into gold at that "price," and the world's gold reserves remained immobilized. Without access to these reserves, the central bankers faced insurmountable difficulties in maintaining the agreed parities, even with the "wider band" of permitted fluctuations. Within a matter of months, several countries had imposed restrictions on the free transfer of funds, including (for the first time) restrictions on the inflow of funds by countries with relatively "strong" currencies, including Germany and Switzerland.

June 23, 1972 The exchange rate of the pound was floated, *i.e.*, allowed to exceed the fluctuation permitted by the Smithsonian Agreement. Within a year many other countries, including Switzerland, Italy, Japan, and Germany, also floated their currencies.

February 13, 1973 The United States announced another devaluation of the dollar, from $38 per ounce to $42.22 per ounce of gold. (This became legally effective on September 21, 1973 with the approval of the Par Value Modification Act of that date, and U.S. gold assets were revalued to the new figure on October 18, 1973.) However, no official gold transactions ever have been effected at the official "price" of $42.22 per ounce. The fiat dollar and all other currencies remained inconvertible in terms of gold at the official "price."

March 11, 1973 Some member countries of the EEC (European Economic Community) formed a joint float known as the "snake." This arrangement provided that the exchange values of the currencies of the participating countries would be maintained within 4.5 percent of each other but would float in relation to the dollar and other nonsnake currencies.

July 10, 1973 Reciprocal currency arrangements (swaps) between the Federal Reserve banks and other countries were increased from $6.3 billion to $18 billion.

November 13, 1973 The countries that had belonged to the gold pool agreed to permit sales of gold in the free market from official holdings. This decision effectively ended the "two-tier" gold market established in March 1968.

December 7, 1973 At the request of South African officials, the IMF terminated its agreement to purchase gold from South Africa in order for that country to meet its foreign-exchange needs. That arrangement presumably had not been used for some time because South Africa could sell gold on the open market at a price higher than the $35 per ounce that the IMF would pay.

January 19, 1974 Unable to keep the value of the franc in its agreed relationship to the other currencies in the EEC joint float, French officials removed the franc from the "snake."

January 29, 1974 The United States removed the "Interest Equalization Tax" and other curbs on the transfer of capital abroad.

April 23, 1974 The finance ministers of the EEC conferred about gold. They agreed to permit central banks to settle accounts among themselves in gold at market-related prices. To date no such transactions of which we are aware have occurred.

June 11, 1974 The Group of Ten decided to permit gold (at market-related prices) to be used as collateral for loans between official institutions.

July 1, 1974 The IMF ceased specifying an SDR as 1/35th of an ounce of gold and began specifying the "value" of an SDR as a weighted average of 16 major currencies. The "value" is calculated daily.

Inasmuch as none of the currencies was officially redeemable in gold and the exchange rates of all currencies were more or less free to fluctuate daily, the value of an SDR unit changed daily with fluctuations in the exchange rates among the currencies in the "market basket." A central bank holding SDRs as a reserve asset in effect held the weighted equivalent of the fluctuating values of the 16 fiat currencies comprising the SDR unit. This "evolution" of the SDR offered the advantage of eliminating any pretense that the SDR ever was tied to gold in a meaningful fashion.

August 22, 1974 The IMF announced the completion of the oil facility arrangements that would permit countries incurring large BOP deficits because of high oil prices to borrow the equivalent of $3.3 billion during the period ended December 1975. Similar arrangements were extended through March 1976, at which time the oil facility was discontinued.

August 31, 1974 To meet a severe BOP deficit, Italy borrowed $2 billion from Germany. The loan was secured by about 16.5 million ounces of gold (at a collateral value of about $120 per ounce).

December 30, 1974 Gold reached an interim high closing price in London, $195.25 per ounce.

December 31, 1974 U.S. citizens were permitted to own gold in any form. The U.S. Treasury subsequently sold relatively small amounts of gold at two public auctions in 1975.

1975 Through 1977

January 9, 1975 The central bank of France began to value, for balance sheet purposes, its gold holdings at the market-related price of $170.40 per ounce, with the value to be revised quarterly. The London price on January 8 was $180.00.

July 11, 1975 The French franc rejoined the "snake" in floating against the dollar after being out of that arrangement for about one and a half years.

September 2, 1975 The IMF Monetary Negotiations Committee agreed that the official "price" of gold ($42.22 per ounce) should be abolished and all rules that require the use of gold in transactions between the IMF and its members should be eliminated. That committee also recommended that one-sixth of the approximately 150 million ounces of gold that had been deposited with the IMF (about 25 million ounces) should be returned to the members in proportion to their IMF quotas. Finally, that committee also recommended that an additional 25 million ounces of the IMF's gold should be sold and the "profits" distributed to developing nations.

Meeting at the same time, the finance ministers of the G-10 countries agreed that for the subsequent 2 years they would take no action to "peg" the price of gold, that all nations could buy gold at market prices (the right to sell gold at such prices was reaffirmed) but that the aggregate holdings of the G-10 countries and the IMF were not to be increased.

The IMF agreements were subject to amendment and approval by the IMF governors and the legislatures of the individual member countries.

November 15-17, 1975 The heads of government of West Germany, Italy, Japan, France, the United Kingdom, and the United States met at Rambouillet, France to discuss the international monetary situation. Agreement was reached for more official intervention in the foreign-exchange markets in order to reduce fluctuations in exchange rates.

January 7-8, 1976 The Interim Committee of the IMF met in Kingston, Jamaica at which time it presented the revised Articles of Agreement of the Fund. Most of the agreements reached were restatements of proposals made by the IMF Monetary Negotiations Committee in September 1975, including (1) the ending of an "official" price for gold, (2) the selling of about 25 million ounces of gold held by the IMF, and (3) the restitution of about 25 million ounces of gold to the member nations. Also agreed upon were (1) increases in the IMF quotas (and likewise in the lines of credit from which the member nations can borrow) by 33.5 percent and (2) the permission for member nations to adopt either fixed of floating exchange rates. Member nations were not permitted to fix the value of their currencies to gold, however.

January 21, 1976 Because of selling pressure on the lire, Italian officials closed the foreign-exchange markets in that country for several days. The value of the lira decreased about 25 percent in terms of the dollar during the first 4 months of 1976.

March 15, 1976 French officials once again removed the franc from the "snake," as the exchange value of the franc fell markedly in terms of the dollar.

May 5, 1976 The IMF announced that the auctioning of 25 million ounces of gold held by the Fund would begin on June 2, 1976. From that date forward, 780,000 ounces of gold were to be auctioned every 6 weeks until the total amount was sold. This schedule was revised early in 1977 such that beginning in March of that year, 524,800 ounces were to be auctioned on the first Wednesday of every month.

June 8, 1976 Officials of the G-10 countries (plus those of Switzerland) and the BIS (Bank for International Settlements) agreed to provide a standby line of short-term credit to Great Britain totaling $5.3 billion. The stated purpose of this credit agreement was to allow Great Britain to defend the exchange rate of the pound against other currencies. The value of the pound in terms of the dollar decreased from $2.43 to $1.76 between February 1975 and May 1976. During that time consumer prices increased at an annual rate of nearly 20 percent in Great Britain.

August 25, 1976 The price of gold in London closed at $103.50 per ounce, the lowest price since December 1973.

October 28, 1976 The exchange value of the British pound decreased to $1.57, its lowest rate in history. That value was nearly 23 percent less that the exchange value was at the beginning of the year and 35 percent less than the exchange value in February 1975.

December 22, 1976 The IMF announced that the Group of Ten countries would provide Great Britain with a standby line of credit totaling

$3.9 billion. Because the IMF did not have adequate funds to make these loans, the G-10 countries provided the funds under the General Arrangements to Borrow, which these nations had established on January 5, 1962. From the end of 1975 to the end of 1976, consumer prices in Great Britain increased 16.8 percent.

January 10, 1977 The BIS announced that the United States, Japan, West Germany, Belgium, Canada, Sweden the Netherlands, and Switzerland had agreed to provide the equivalent of $3 billion in standby credit to Great Britain. These arrangements were separate from the $3.9 billion loans agreed to by the G-10 countries only 2 weeks earlier. The purpose of both of these loans was to help prevent further reduction in the monetary reserves of Great Britain.

January-February 1977 The IMF restituted approximately 6 million ounces of gold to the member nations in proportion to the members' quotas as of August 31, 1975. The amount sold back to the United States was 1.434 million ounces. This was the first of four scheduled annual transfers of IMF gold the member nations in accordance with the agreements reached at the meeting of the IMF Interim Committee in January 1976.

January-June 1977 The United States incurred a current-account BOP deficit of a then-record $8.8 billion during this period. The exchange value of the dollar decreased to then-record lows in terms of the Swiss franc (41 cents) and German mark (43 cents).

August 1977 The IMF announced that it had established another supplementary financing facility for making loans to those member nations "facing serious payments imbalances that are large in relation to their quotas [in the IMF]." The funds for this facility are to be provided by the industrial nations and some oil exporting countries. Not until February 23, 1979 did this facility become operational, with funds totaling SDR 7.75 billion, or about $10 billion.

Since 1963, the IMF had established a number of special credit arrangements that increased members' borrowing capacity. The "compensatory financing facility" was established in 1963, and it provided an additional credit potential of 50 percent of quota to qualifying countries, mainly countries exporting primary products. A "buffer stock facility" added a further credit potential of 25 percent of quota in 1964. In 1973, the "extended Fund facility" provided an additional credit of 65 percent of quota. The "oil facility" of 1974 and 1975 added SDR 6.9 billion to the total of credit available through the IMF. The compensatory financing facility was expanded to 75 percent of quota in 1975, and at the same time its joint limit with the buffer stock facility was removed. A temporary 45 percent widening of credit tranches was implemented in 1976; it expired April 1, 1979, when quotas were increased 33.5 percent.

October 31, 1977 The British government, citing the sharp drop in the foreign-exchange value of the dollar during the summer and massive purchases of dollars by the Bank of England, said that the primary focus of Britain's exchange stabilization efforts henceforth would be an index of trading partners' currencies rather than the dollar. From end-October 1976 to end-September 1977, the British pound increased 8.8 percent against the dollar, from $1.61 to $1.75. Consumer prices in Britain increased 16.6 percent from the third quarter of 1976 to the third quarter of 1977. Reflecting the large purchases of dollars mentioned above, U.K. foreign-exchange reserves at end-September 1977 were $15.9 billion, compared with $2.7 billion just 9 months earlier.

December 1977 The IMF restituted (sold back) 6.0 million ounces of gold to its member nations. The U.S. share was 1.434 million ounces.

January 1975-December 1977 After a $5.3 billion merchandise trade deficit during 1974, the United States recorded a $9.0 billion surplus in that account during 1975. However, during 1976 that account reversed to a $9.3 billion deficit, and the deficit increased to $31.0 billion during 1977. The U.S. balance on current account increased from a surplus of $1.7 billion during 1974 to $18.4 billion during 1975. Thereafter, the current account balance decreased to $4.3 billion surplus during 1976 and then to a deficit of $15.2 billion during 1977. Reflecting these developments, U.S. liabilities to foreign official institutions increased a moderate $3.9 billion during 1975, to a total of $80.7 billion at the end of that year. However, as the U.S. international payment position subsequently worsened, the total of U.S. liabilities to official institutions increased to $92.0 billion at year-end 1976 and to $126.1 billion at year-end 1977.

1978 Through 1979

January 4, 1978 A swap agreement between the U.S. Treasury (through its Exchange Stabilization Fund) and the central bank of West Germany was announced. The amount of the swap line was not specified, but it was in addition to the swap line between the German bank and the Federal Reserve, which was $2 billion. During the final 3 months of 1977, the dollar fell 15.1 percent against the Swiss franc (to 50 cents), 9.2 percent against the German mark (to 47.5 cents), and 9.0 percent against the Japanese yen (to .42 cents).

January 31, 1978 The September 1975 agreement among the G-10 countries that the total stock of gold held by them would not be increased expired. These and other nations became free to add to their gold reserves as they decided.

March 13, 1978 The Federal Reserve's swap line with Germany was doubled, for $2 billion to $4 billion. The total of such swap lines thus became $22.16 billion.

April 1, 1978 The Second Amendment to the IMF's Articles of Agreement became effective. Fund quotas were increased from SDR 29.2 billion to SDR 39 billion.

April 19, 1978 U.S. Treasury officials announced plans to sell at public auction 300,000 ounces of gold per month for at least 6 months beginning May 23. Reasons given by the Treasury officials were "to continue progress toward the elimination of the international monetary role of gold" and to defend the foreign-exchange value of the dollar. From the end of 1977 to the end of March 1978, the price of gold increased from $164.95 to $186.60 per ounce. In terms of foreign currencies, the U.S. dollar decreased 6.6 percent against the Swiss franc, (to 53.5 cents), 3.9 percent against the German mark (to 49.4 cents), and 7.3 percent against the Japanese yen (to .45 cents) during the first quarter of 1978.

May 19, 1978 The IMF announced that, in accordance with the Second Amendment to the IMF Articles, each developing nation eligible to receive directly a share of the "profits" from the public gold auctions would have the option either of receiving its share of the "profit" in paper currency or in gold. The procedure by which the gold could be claimed was through submission of noncompetitive bids at any IMF auction held before May 31, 1979. Election of the gold option by many developing nations indicated that, in spite of the declarations and hopes of many monetary "experts" to reduce the monetary role of gold, gold was far from "dead" as a monetary metal in the practical world.

July 1, 1978 The composition of the "basket" of 16 currencies that determine the value of the SDR was changed. The IMF declared its intention to adjust the SDR composition at 5-year intervals, according to the relative importance of member countries in the export of goods and services during a 5-year period.

August 22, 1978 Treasury plans for auctioning 300,000 ounces of gold per month through November were altered. Beginning in November, the amount was increased to 750,000 ounces per month for 4 months. These larger gold sales, together with an August 18, 1978 increase in the discount rate from 7.25 percent to 7.75 percent announced by Federal Reserve officials, were said by Government officials to be part of the corrective steps they had promised to improve the foreign-exchange value of the dollar. From the end of March 1978 to the end of July 1978, the price of gold increased from $186.60 to $200.25 per ounce. Over the same period the value of the dollar decreased 6.8 percent in terms of Swiss francs (to 57.4 cents) and 14.7 percent in terms of Japanese yen (to .52 cents). Against the German mark, the dollar increased 0.9 percent (to 49 cents).

November 1, 1978 Officials of the U.S. Treasury and Federal Reserve announced measures to "strengthen the dollar and thereby counter inflationary pressure." The package of actions included, among other things, arrangements to enable the United States to acquire a total of up to $30 billion-equivalent in German marks, Swiss francs, and Japanese yen that could be used to support the foreign-exchange value of the dollar. This total comprised $3 billion of drawings on the IMF, $2 billion form the sale of SDRs, $10 billion from the sale of Treasury securities denominated in foreign currencies, and $15 billion of "swap lines" with the central banks of Germany ($6 billion), Switzerland ($4 billion), and Japan ($5 billion). With these increases in swap lines, the Federal Reserve's swap line with all countries reached $29.76 billion. An increase in the amount of gold to be sold at Treasury auctions each month, to 1.5 million ounces starting in December, also was announced.

The price of gold increased from $200.25 per ounce at the end of July 1978 to $242.60 at the end of October. From the end of July to the end of October, the value of the dollar decreased 14.9 percent in terms of German marks, 15.4 percent in terms of Swiss francs, and 7.8 percent in terms of Japanese yen. During the first 9 months of 1978, the U.S. merchandise trade deficit increased $6.1 billion from the comparable period a year earlier, to a total of $27.0 billion. The U.S. current account deficit was $13.8 billion during the first 9 months of 1978; it was $8.3 billion during the same months of 1977. At the end of October 1978, U.S. liabilities to foreign official institutions totaled $146.8 billion, some $20.7 billion more than 10 months earlier.

December 4-5, 1978 An agreement was reached at a meeting of the EEC to establish a European Monetary System (EMS) on January 1, 1979. The EMS is a mechanism by which members established a grid of bilateral exchange rates with limited fluctuation among members' currencies but a floating relationship to nonmember currencies. The EMS countries participating in the former "snake" had limits imposed on their bilateral exchange rates of 2.25 percent on either side of a central rate set in terms of ECUs. (An "ECU," or European Currency Unit, is a weighted average index of the EMS member country currencies. ECUs are used to settle debts among EMS members. On December 5, 1978, one ECU had the value of $1.31.) Wider margins than 2.25 percent (up to 6.00 percent) were permitted for nonsnake EMS members.

The initial supply of ECUs was issued by the EMCF (European Monetary Cooperation Fund) in return for each member's deposit of 20 percent of its gold holdings and 20 percent of its gross reserves in terms of U.S. dollars. These deposits were in the form of revolving (automatically renewing) 3-month swaps. The gold deposits are valued at the average market price of the 6 preceding months or at the average market price on the penultimate working day of the deposit, whichever is lower. The establishment of the EMS suggested that an international monetary system of floating exchange rates was not acceptable to the EEC members, and the inclusion of a role for gold indicated the monetary officials of those countries were not ready to rely solely on paper credits for international reserves.

December 5, 1978 In accordance with the plans announced on November 1, the U.S. Treasury stated that two U.S. Government nonmarketable notes denominated in Deutsche marks in the approximate amounts of 2.5 to 3.0 billion DM would be offered exclusively to residents of West Germany. Both issues subsequently were sold on December 15, with the dollar total of issues equal to $1.595 billion. A sale to Swiss residents of Swiss-franc denominated U.S. Treasury notes was made on January 26, 1979. The total of these two notes was $1.2 billion. The Treasury's objective was to obtain German marks and Swiss francs with which to support the value of the dollar.

During the 1960's and early 1970's, the U.S. Treasury also sold notes denominated in foreign currencies. These were called "Roosa bonds." However, the Roosa bonds were sold only to foreign official institutions, and they were sold for dollars but repaid in specified foreign currencies (Deutsche marks or Swiss francs). The objective then was to take dollars out of the foreign official institutions in order to reduce their demand for U.S. gold at 35 dollar claims per ounce. Obviously, that scheme neither signaled the abandonment by U.S. officials of the unsound policies that accounted for the large accumulation of unwanted dollars by some foreigners nor did it eliminate the need for more drastic measures that were taken on August 15, 1971 and subsequently during the 1970's.

December 13, 1978 IMF quotas were increased 50 percent, from SDR 39 billion to SDR 58.6 billion. Members were to pay 25 percent of their quota increases in SDRs (this proportion formerly was payable in gold) and the balance in their own currencies. Another action provided for further allocation of SDRs in the amount of SDR 4 billion as of January

1 of each of the years 1979, 1980, and 1981. The SDR resolution resulted from a proposal of the Managing Director of the IMF, who asserted that there was a long-term global need to supplement existing reserve assets. From the end of 1958 to the end of 1968, total international reserves increased from SDR 57.3 billion to SDR 77.8 billion, an annual rate of increase of 3.1 percent. At the end of 1978, such reserves totaled SDR 278.6 billion, which reflected an annual rate of increase of 13.6 percent during the 10 years following 1968.

February 1979 The third IMF restitution of gold to its members was completed. A total of nearly 6.1 million ounces was involved, with the United States receiving 1.434 million ounces. In spite of IMF gold restitutions to the United States totaling 4.3 million ounces during 1977 and 1978, the U.S. gold stock at the end of January 1979 was 274.6 million ounces, little changed from the stock of 274.7 million ounces as the end of 1976.

March 13, 1979 The EMS began functioning after a delay from January 1.

April 18, 1979 The U.S. Treasury, citing "improved conditions in the foreign exchange markets," reduced the amounts of its planned monthly gold auctions to 750,000 ounces from 1.5 million ounces starting in May. The afternoon gold price fixing in London on April 17 was $231.90 per ounce. When the Treasury announced an increase in auctions on November 1, 1978, the price of gold was $242.60 per ounce. From the end of October 1978 to the end of March 1979, the dollar increased 7.5 percent in terms of German marks (to 53.6 cents), 14.9 percent in terms of Swiss francs (to 59.1 cents), and 19.0 percent in terms of Japanese yen (to .48 cents). All of the increase against the mark and the Swiss franc occurred by the end of November 1978, while more than half of that against the yen occurred then. Marketable U.S. Government securities held in custody by the Federal Reserve banks for foreign official institutions totaled $86.4 billion on April 11, 1979, compared with $91.8 billion on November 1, 1978. The decrease was a rough indication that foreign central banks sold some dollars in the meantime. However, from November 1 through December 1978, the Federal Reserve sold the equivalent of $6.6 billion in foreign currencies (bought dollars) and the U.S. Treasury sold $2.7 billion-equivalent of foreign currencies. By the end of January 1979, these two institutions reversed those transactions by about $1.4 billion.

January 24, 1979 The South African Minister of Finance, Owen Harwood, announced a package of major changes in South African currency policies. Reportedly designed "to strengthen the private sector by stimulating foreign investment," the new measures included the introduction of a managed floating commercial rand and a major expansion of the former "securities rand" into a free-floating "financial rand."

March 31, 1979 The Bank for International Settlements (BIS) increased the value of its "gold franc," the unit of account in which its books are kept, from $0.39 to $1.94. This action reflected the revaluing of its gold holdings from $42.22 per ounce to $208.00 per ounce. Concurrently, the BIS devalued its asset and liability accounts denominated in fiat currencies by about 80 percent, reportedly to reduce "distortions" in its accounts.

May 30, 1979 Since November 1, 1978, when U.S. officials announced a program "to strengthen the dollar and thereby counter domestic inflationary pressures," the dollar advanced 25 percent against the Japanese yen, 17 percent against the Swiss franc, and 10 percent against the German mark.

July 20, 1979 The Federal Reserve Board raised its discount rate from 9.5 to 10 percent.

July 25, 1979 President Carter nominated Paul Volcker for the Chairmanship of the Federal Reserve Board.

August 17, 1979 The Federal Reserve Board increased its discount rate from 10 to 10.5 percent

September 1979 Canadian monetary officials announced the introduction of the Canadian Maple Leaf, a 1-ounce gold coin to be sold on the open market. The U.S. Congress authorized the Treasury Department to use 1 million ounces of gold bullion for producing and selling 1-ounce and 1/2-ounce gold medallions each year beginning in 1980 and ending in 1984.

September 19, 1979 The Federal Reserve Board increased its discount rate from 10.5 to 11 percent.

October 2, 1979 The price of gold in London reached an interim peak of $437 per ounce.

October 2-5, 1979 The International Monetary Fund met in Belgrade, Yugoslavia, for its 34th annual meeting. Fund officials discussed the possibility creating a "substitution account" to enable foreign nations with surplus dollars of dwindling purchasing power to exchange them for the Funds SDRs (which would reduce international pressure on the United States to restrain inflating), but no final agreement was reached. *The Wall Street Journal* dubbed the idea a "substitution scam."

October 6, 1979 Federal Reserve Board Chairman Paul Volcker announced a new set of Fed policies intended to stem the erosion of confidence in the U.S. paper dollar. The new policies included: (1) a policy shift in focus to controlling bank reserves and targeting the monetary aggregates; (2) a 1 percent increase in the discount rate to a record 12 percent; and (3) the establishment of an 8 percent reserve requirement on *increases* in specified types of participating banks' "managed liabilities."

October 8, 1979 The Federal Reserve Board increased its discount rate from 11 to 12 percent.

October 19, 1979 The U.S. Treasury announced plans to alter both the frequency of future gold sales and the amount to be offered, with only several days advance notice preceding sales.

October 22, 1979 Yields on new issues of 3-month Treasury bills soared to a record 12.93 percent. Since the Federal Reserve announced its change in policy on October 6, the rates on short-term Treasury securities have increased more than 280 basis points.

October 23, 1979 The British government announced the immediate termination of existing exchange controls. For the first time since 1939, British subjects legally could: (1) buy and sell any amount of foreign currency and hold it either in Great Britain or abroad; (2) lend sterling for investment outside Great Britain to foreigners; (3) carry unlimited amounts of funds abroad; (4) buy and sell foreign securities at the official exchange rates; and (5) buy and sell gold bullion domestically or abroad.

October 25, 1979 The Treasury Department reported that it would sell up to 1,250,000 ounces of gold on November 1. The price of gold decreased little after these announcements, suggesting that gold was in "strong hands."

November 13, 1979 The House of Representatives passed legislation that rescinded the Treasury Secretary's authority to confiscate gold whenever that official deemed it necessary "to protect the currency system of the United States." It was thought that the Senate would *not* pass similar legislation soon.

December 31, 1979 At year end, the price of gold in London was $523.00 per ounce. Since year-end 1978, the Consumer Price Index increased 13.29 percent.

The 1980's

January 1980 The business cycle peaked, signaling the onset of recession, which lasted until July. In the first bailout of a major U.S.

industry, the U.S. Government guaranteed $1.5 billion of debt of the Chrysler Corporation.

Congress legislated a "Windfall Profits" tax on the petroleum industry. In fact, the tax was not a "profits" tax at all, but rather an excise tax based on the *price* of a single commodity, crude oil.

Budget officials announced that the actual Federal deficit for FY1979 was a then-record $27.7 billion.

The Swiss government extended its 5.6 percent "sales" tax to new purchases of gold coins or gold bullion.

January 15, 1980 More than 3 months after the Treasury Department's first "surprise" gold auction, Treasury Secretary G. William Miller said that the Government did not then plan to sell gold simply because of the sharp increases in the price of gold. He reiterated the Treasury's position that as long as the dollar "does well" on the foreign-currency exchanges, there is no need to support it by selling gold. It scarcely needs comment that this reasoning — *i.e.*, selling gold only when its price is low and divesting gold reserves to support the Nation's currency — hardly seemed designed to instill confidence in the wisdom of the monetary officials or their policies.

January 21, 1980 The price of gold in London reached an all-time peak at $850 per ounce.

January 29, 1980 The House Subcommittee on Financial Institutions Supervision, Regulation, and Insurance approved H.R. 5961, which would make it a criminal act to transport or attempt to transport "monetary instruments" totaling $5,000 or more into or out of the United States without filing required reports with the Government. Approval by the House Banking Committee appeared probable.

February 12, 1980 *The Wall Street Journal* reported that Robert V. Roosa, a leading architect of U.S. paper money policies since the early 1960's, opposed official gold sales both by the U.S. Treasury and the IMF.

The "Brandt Commission" delivered its 304-page report, *North-South: A Program for Survival*, to United Nations General Secretary Kurt Waldheim. The Brandt report proposed that the IMF must intervene to ensure the financial survival of the debt-ridden less-developed countries (LDCs). In fact, the Brandt "Commission" was a creation of private individuals, principally World Bank president Robert S. McNamara and various members of the Council on Foreign Relations (CFR), a private policy organization.

It was announced that, as measured by the Consumer Price Index,

the cost of living increased 13.3 percent between December 1978 and December 1979.

February 1980 The *Federal Reserve Bulletin* published the detailed descriptions of the Fed's "redefined monetary aggregates," M-1A, M-1B, M-2, M-3, and L, which would be compiled by the Fed and would supplant the old aggregates M1 through M5.

February 15, 1980 The Federal Reserve board increased its discount rate from 12 to 13 percent.

February 28, 1980 The Joint Economic Committee issued its Annual Economic Report for 1980. Among its major policy recommendations were that (1) U.S. monetary and fiscal policies should be designed for the purpose of achieving an average annual real growth rate equal to that of our long-run potential real GNP; (2) these policies should be held steady over the long term and short-term adjustments should be avoided; (3) a tax cut of approximately $25 billion should take effect no later than the summer of 1981; (4) there should be a gradual reduction in the share of GNP taken by Federal outlays; (5) a regulatory budget should be developed to monitor costs of Government regulation of the private sector; (6) Federally funded programs emphasizing private-sector on-the-job training should be expanded; (7) the Fed should gradually reduce the rate of money and credit expansion; (8) floating exchange rates should be maintained; and (9) initiatives for the development of the Substitution Account with the IMF to facilitate a changed role for the dollar in the world currency markets should continue.

March 14, 1980 As part of the Carter Administration's anti-inflation effort, the President invoked power granted to him in the Credit Control Act of 1969 to broaden the Federal Reserve Board's control over credit to that issued by nonmembers of the Federal Reserve System as well as Federal Reserve member banks. The Fed immediately imposed the equivalent of reserve-requirement ratios on specified types and amounts of credit extended by various creditors. Nonmember commercial banks' managed liabilities in excess of a certain base amount now were subject to a 10 percent required deposit with the Federal Reserve. A 15 percent reserve requirement was imposed on increases after March 14 in the assets of money market mutual funds (MMMFs). Commercial banks, S&Ls, Credit Unions, finance companies, and other credit card issuers, and U.S. branches and agencies of foreign banks now had to maintain a special deposit equal to 15 percent of increases in specific types of consumer credit above the March 14 base amounts.

In addition, effective March 17, the Fed added a 3 percentage-point surcharge to the 13 percent discount rate. The former 8 percent marginal reserve requirement against increases in member banks' managed liabilities above a certain base amount was increased to 10 percent, and the base amounts were reduced from those established on October 6, 1979.

In a legal sense, these Fed actions marked a departure from prior credit restraint measures, which had been limited to restrictions on the activities of Fed member banks.

March 27, 1980 After plummeting from its January high, the price of gold in London reached a yearly trough at $485.25 per ounce.

March 31, 1980 President Carter signed into law the "Depository Institutions Deregulation and Monetary Control Act of 1980. This Act covered a wide array of regulatory issues. Among its provisions were the following: (1) it permitted nationwide NOW accounts, ATS services to permit transfers from savings to checking accounts, remote service units for S&Ls, and share drafts for credit unions; (2) it phased out deposit interest rate ceilings; (3) it eliminated usury ceilings on first residential mortgage loans; (4) it increased the level of Federally insured deposits from $40,000 to $100,000; (5) it required reserves of 3 percent on all transactions accounts below $25 million and 12 percent for the portion above $25 million; (6) it permitted the Federal Reserve Board to impose supplemental reserve requirements of up to 4 percent of any depository institutions transactions accounts; (7) it provided access to the Fed discount window for all depository institutions; (8) it established fees for Fed services; (9) it expanded the powers of credit unions and savings and loan institutions; and (10) it modified truth-in-lending disclosure procedures by requiring the use of "simple English phrases" to describe key terms in such disclosures, effective March 31, 1982.

April 1980 From April 5 through April 21, the exchange value of the U.S. dollar decreased 8.3 percent against the Swiss franc, 6.3 percent against the German mark, and 4.3 percent against the Japanese yen.

April 2, 1980 The crude oil "windfall profits" tax became Public Law 96-223. Effective retroactively to March 1, 1980, the Crude Oil Windfall Profits Tax Bill of 1980 imposed a tax on all domestic crude oil. This confiscatory and discriminatory excise tax was imposed at the wellhead on each barrel of domestic crude oil.

May 7, 1980 The Federal Reserve Board removed the 3 percentage point surcharge from the discount rate, reducing the effective discount rate to 13 percent.

May 30, 1980 The Federal Reserve Board cut its discount rate from 13 to 12 percent.

June 13, 1980 The Federal Reserve Board reduced the discount rate further from 12 to 11 percent.

July 1980 Business activity troughed, indicating the beginning of an expansionary phase of the business cycle.

July 15, 1980 The U.S. Treasury began selling gold medallions in 1-ounce and 1/2-ounce sizes. These medallions were the first substantial U.S. gold mintage since 1933.

July 28, 1980 The Federal Reserve Board reduced its discount rate from 11 to 10 percent.

August 1980 The House defeated H.R. 5961, which would have required individuals to report to the Government any transport of "monetary instruments" totaling $5,000 into or out of the United States.

September 1980 At its meeting in Washington, D.C., the IMF again changed the composition of the SDR valuation. As of January 1, 1981, changes in the value of the SDR would be determined by changes in the weighted average exchange values of only 5 currencies: the U.S. dollar (42 percent weighting), the West German mark (19 percent), and the British pound, French franc, and Japanese yen (13 percent each). The IMF resolution also provided for regular revision of the SDR composition at 5-year intervals.

September 26, 1980 The Federal Reserve Board increased its discount rate from 10 to 11 percent.

September 30, 1980 President Carter announced a new Trigger Price Mechanism (TPM). Commerce Secretary Malcolm Baldrige outlined the Reagan Administration's position, proclaiming that the TPM would remain in place "until the domestic steel industry feels secure about dumping."

October 1, 1980 Senator Jesse Helms introduced a legislative bill (S. 3181) entitled the "Gold Reserve Act of 1980," which proposed that the gold standard be restored to the United States monetary system.

November 1980 Congress passed, and the President signed into law, legislation authorizing the creation of a Gold Study Commission to inquire into Treasury Department gold sales and other gold-related policies.

November 17, 1980 The Federal Reserve Board increased its discount rate from 11 to 12 percent.

December 5, 1980 The Federal Reserve Board increased its discount rate from 12 to 13 percent.

December 31, 1980 The price of gold in London at year's end was $523.00 per ounce. Since year-end 1979, the Consumer Price Index increased 12.52 percent.

January 1, 1981 Greece was formally admitted into the European Economic Community (EEC) as the 10th member nation.

January 6, 1981 The price of gold in London reached its peak for the year at $599.25 per ounce.

February 1981 The Federal Reserve Board announced its monetary growth targets for 1981: 3.0 to 5.5 percent for M-1A and 3.5 to 6.0 percent for M-1B.

February 2, 1981 The IMF announced a $2.1 billion economic assistance loan to Yugoslavia.

March 24, 1981 The IMF announced an agreement with the Saudi Arabian Monetary Agency (SAMA) by which Saudi Arabia will commit 4 billion SDR ($4.8 billion) to the Fund annually in each of the next 2 years.

April 1981 The Joint Economic Committee issued its Annual Report, which, as in some prior years, contained two sets of policy proposals, one Democratic and one Republican. Democratic monetary policy recommendations included: (1) moderately restrained monetary expansion with a focus on long-term growth rates of money and credit; (2) a requirement that the Federal Reserve reveal and describe the rationale for its monetary growth rate targets; and (3) that Government should bring interest rates down by a) not further reducing monetary growth rates from those of 1980, b) coordinating international monetary policies to reduce interest-rate competition, and 3) encouraging the banking system to observe constraints on loans for "speculative and purely financial purposes." Republican monetary policy recommendations included: (1) that the growth rate of the money supply be reduced gradually, beginning immediately; (2) that the Fed be prohibited from departing from its money growth targets; and (3) that a strong dollar be achieved through monetary restraint and increased productivity and growth.

April 27, 1981 Fifteen Western nations agreed to reschedule about a quarter of the $10 billion that Poland was obligated to repay them before the end of the year.

April 30, 1981 Great Britain, France, and the United States vetoed

four United Nations Security Council resolutions that called for political and economic sanctions against South Africa on account of that country's refusal to relinquish control over Namibia (South West Africa).

May 4, 1981 The Federal Reserve Board announced an increase in the discount rate from 13 percent to a record 14 percent, plus an increase in the surcharge from 3 percent to 4 percent.

May 26, 1981 OPEC oil ministers froze oil prices at their semi-annual meeting in Geneva. The 12 member nations also agreed to cut production by at least 10 percent.

July 1981 Business activity peaked, signaling the onset of recession, which lasted until November 1982.

July 16, 1981 The first meeting of the U.S. Gold Study Commission was held. The divergence of views expressed at this meeting revealed a sharp division between "pro-gold" and "anti-gold" members. The Commission's report, due October 1, was expected to reflect such lack of agreement.

August 31, 1981 President Reagan signed into law the Economic Recovery Tax Act of 1981 (ERTA). This law provided some tax relief to all taxpayers, but many of its provisions favored select groups. New estate tax and gift tax provisions provided significant tax relief to almost everyone who had accumulated substantial assets.

August 7-October 9, 1981 With the first indication of a possible interim peak in U.S. interest rates in early August, the dollar began to drop sharply in terms of the "stronger" currencies. By October 9, the dollar had dropped 15.5 percent in terms of Deutsche marks, 18.6 percent in terms of Swiss francs, and 6.8 percent in terms of Japanese yen.

September 29, 1981 Congress raised the ceiling on the U.S. Federal debt to more than $1 trillion.

October 5, 1981 Banco de Mexico introduced a series of new gold bullion coins, the Mexican One-Ounce, the Mexican Half-Ounce, and the Mexican Quarter-Ounce. The coins have legal tender status, which means that the central bank is obligated to redeem them at the current world market price of gold.

October 23, 1981 Economic and monetary officials of 8 industrialized and 14 less-developed countries met in Cancun, Mexico, where they pledged "greater cooperation" between richer and poorer nations. Disagreement surfaced, however, over specific proposals.

November 6, 1981 The Federal Reserve Board reduced its discount rate from 14 to 13 percent.

November 9, 1981 The IMF approved a record $5.8 billion loan to India. The United States opposed the loan and abstained from voting on the decision.

December 4, 1981 The Federal Reserve Board reduced its discount rate further from 13 to 12 percent.

December 31, 1981 Since year-end 1980, the Consumer Price Index increased 8.92 percent.

January 1982 The Federal Reserve Board announced that its M-1B monetary aggregate had been redesignated M1 and that the "shift-adjusted" M-1B series had been discontinued.

January 1, 1982 The Swiss transfer tax on gold coins and gold bullion was increased from 5.6 percent to 6 percent.

January 29, 1982 The U.S. Government told nine money center banks that it would cover $91 million in outstanding interest and principal on loans to Poland that were in arrears, though not technically in default.

March 31, 1982 The "Commission of the Role of gold in the Domestic and International Monetary Systems" issued its official report to Congress. According to that report, a majority of the Commission members "favor essentially no change in the present role of gold." However, the Commission recommended that the U.S. Treasury issue gold bullion coins, American Eagles, of specified weights and fineness, without dollar dénominations or legal tender status, that would be exempt from capital gains taxes and all sales taxes. The Commission also recommended that the Treasury retain the right to conduct sales of gold at its discretion. The Commission recommended *against* any issue by the U.S. Treasury of gold-backed notes or bonds.

April 30, 1982 The United Nations Law of the Sea Conference adopted a final draft of a treaty to govern the use of the seas and their natural resources. According to the terms of the treaty, mining companies would be required to sell their technical expertise to an international group acting in behalf of Third World countries. The United States voted against the treaty.

May 18, 1982 Seven member nations of the European Economic Community (EEC) voted to increase farm prices by 10.7 percent. Britain, a heavy imported of foodstuffs, voted against the measure.

May 27, 1982 Japan eliminated tariffs on 96 industrial goods and reduced import duties for 121 other items. Among the goods now tariff-free were machine tools and computers.

June 6, 1982 The leaders of The United States, Canada, France, Great Britain, Italy, Japan, and West Germany met in Versailles, where they proposed greater "cooperation" on the international coordination of exchange rates, aid to the LDCs, and export credits to the Soviet Union.

June 21, 1982 The gold price reached its 1982 trough at $296.75 per ounce.

July 5, 1982 Federal regulators declared the Penn Square Bank of Oklahoma City insolvent. Penn Square's correspondents held about $2 billion of its loans and faced losses estimated at $200 million.

July 7, 1982 Poland's Western bank creditors failed to reach agreement with that country's officials over the settlement of its outstanding debts.

July 20, 1982 The Federal Reserve Board reduced its discount rate from 12 to 11.5 percent.

August 2, 1982 The Federal Reserve Board reduced its discount rate further from 11.5 to 11 percent.

August 12, 1982 Mexico announced that foreign-currency deposits in Mexican banks henceforth would be available only in pesos.

August 16, 1982 The Federal Reserve Board reduced its discount rate from 11 to 10.5 percent.

August 19, 1982 Congress passed the Tax Equity and Fiscal Responsibility Act of 1982. A main justification for the legislation was that it was "crucial to holding down runaway deficits."

August 21, 1982 Mexico's creditors announced that they agreed to a 90-day moratorium on payment due of $10 billion in principal, while requiring that country continue to pay interest on its outstanding debt. At the same time, a banking committee comprised of officials from Canada, France, Great Britain, Italy, Japan, Switzerland, the United States, and West Germany granted new credits to Mexico; and the Bank for International Settlements (BIS) agreed to provide $1.6 billion in short-term credits for servicing Mexico's debt.

August 27, 1982 The Federal Reserve Board reduced the discount rate from 10.5 to 10 percent.

September 1, 1982 Mexico nationalized its banks and imposed strict currency exchange controls.

September 7, 1982 The London price of gold reached its 1982 peak at $481.00 per ounce.

September 9, 1982 Congress overrode President Reagan's veto of a $14.4 billion supplemental appropriations bill.

September 22, 1982 Bolivia defaulted on $50 million in debt after the IMF denied its request for financial aid.

October 5, 1982 Federal Reserve Chairman Paul Volcker met with the Federal Open Market Committee (FOMC) to establish short-run operating targets for the execution of monetary policy. The Fed subsequently announced that it was "relaxing" its target growth rate for the M1 aggregate money supply series, citing distortions in that series that interrupted its usefulness as a measure of transactions money.

October 8, 1982 The Federal Reserve announced a reduction in the discount rate from 10 percent to 9.5 percent.

October 27, 1982 Following years of noncompliance with GATT trade obligations, Poland's most-favored-nation trading status was suspended by President Reagan.

November 1982 The business cycle troughed, ending the recession that began in July 1981 and inaugurating the current business expansion.

The Depository Institutions Deregulation Committee (DIDC) authorized commercial banks and savings institutions to offer two new types of account: the Money Market Deposit Account, to become available on December 14, 1982; and the "Super NOW" Account, to become available January 5, 1983.

Treasury officials announced that the actual Federal deficit for FY 1982 was $110.7 billion.

November 10, 1982 The IMF announced a $3.8 billion bailout loan to Mexico.

November 22, 1982 The Federal Reserve Board reduced the discount rate from 9.5 to 9 percent.

December 14, 1982 The Federal Reserve Board further reduced the discount rate to 8.5 percent.

December 15, 1982 The IMF announced a $4.5 billion bailout loan to Brazil.

December 31, 1982 Since year-end 1981, the Consumer Price Index increased 3.83 percent.

January 5, 1983 The United Nations Economic Commission for Latin America reported that the cumulative foreign debt of Latin American

countries was estimated at $275 billion and that runaway price inflation in many countries threatened their ability ever to repay their obligations.

January 18, 1983 The "Group of Ten" nations (Belgium, Canada, France, Great Britain, Italy, Japan, The Netherlands, Sweden, the United States, and West Germany) announced their support for an increase in the GAB (General Agreement to Borrow) unit of the IMF from $7.1 billion to $19 billion. The IMF emergency fund also was opened to IMF members outside the G-10 nations — specifically, those facing loan defaults so large that they were deemed to "jeopardize the world's monetary stability."

February 1983 The Western governments agreed to increase their IMF quotas 47 percent.

February 15, 1983 The London price of gold reached its 1983 peak at $509.00 per ounce.

February 24, 1983 Some 500 Western banks agreed to underwrite a $5 billion bailout loan to Mexico, which received $433 million immediately in short-term credit to enable it to meet foreign debt obligations.

February 28, 1983 The IMF announced that it had provided Brazil with a $5.4 billion bailout loan.

March 1983 The currencies within the European Monetary System (EMS) were realigned. The Deutsche mark was revalued 5.5 percent; the Dutch guilder, 3.5 percent; the Danish krone, 2.5 percent; and the Belgian franc, 1.5 percent. The French franc was devalued 2.5 percent; the Irish pound, 3.5 percent; and the Italian lira, 2.5 percent.

Meeting in London, the OPEC ministers agreed to reduce their "benchmark" price from $34 to $29 per barrel of crude oil, and agreed to production quotas for each member nation.

The French government imposed a 1,000 percent annual interest charge on short-term deposits used by foreign-exchange traders, allegedly to "end speculation" against the franc.

July 1, 1983 U.S. Treasury Regulation 1.6045.1 became effective. This IRS regulation required that coin dealers file IRS form 1099b providing information about all sales by collectors or investors of any bullion-related assets, specifically identifying both the transaction and the individual involved.

October 6, 1983 A 60-bank panel representing some 800 western creditors agreed to provide Brazil with $6.5 billion in new loans to enable it to meet its interest obligations; an additional $5.5 billion loan was granted to repay principal on debts to come due in 1984.

November 21, 1983 The London price of gold reached its 1983 low at $374.25 per ounce.

December 1983 Treasury officials announced that the actual Federal deficit for FY 1983 was $195.4 billion.

The Consumer Price Index for All Urban Consumers (CPI-U) increased 3.8 percent during the year ended December 31.

March 5, 1984 The London price of gold reached its 1984 peak at $405.85 per ounce.

April 9, 1984 The Federal Reserve Board increased its discount rate from 8.5 to 9.0 percent.

May-September 1984 Federal Reserve and FDIC officials engineer a $4.5 billion "rescue" of the Continental Illinois National Bank and Trust Company. As part of the bailout program, the FDIC took over $3 billion of bad loans from the mismanaged "money center" bank.

July 18, 1984 President Reagan signed the Deficit Reduction Act of 1984 into law.

September 7, 1984 Mexico's creditors agreed to reschedule $48.5 billion of that country's debt.

November 21, 1984 The Federal Reserve Board reduced its discount rate from 9 to 8.5 percent.

December 1984 Treasury officials reported that the actual Federal budget deficit for FY 1984 was $185.3 billion.

December 20, 1984 The London gold price hit a low for the year at $307.50 per ounce.

December 24, 1984 The Federal Reserve Board reduced the discount rate from 8.5 to 8 percent.

December 31, 1984 At year end, the Consumer Price Index was 4 percent higher than it had been at year end 1983.

1981-89 Rumors of an impending "currency switch" resurfaced from time to time throughout this period. Some "insiders" have reported viewing warehouses filled with a new multi-colored currency that is to replace greenbacks. The Treasury's response to inquiries is that alternative designs for currency are only "under study" because of the prospect that advances in copying and printing equipment may soon

make counterfeiting a "crime of opportunity" rather than one involving expertise. The possibility that the Treasury may implement a currency switch for some other purpose than preventing people from running off a few tens and twenties on the new copier during lunch hour is occasioned by the fact that it is impossible to determine exactly who holds the nearly $200 billion of currency outstanding, where they keep it, or how they use it. That more than half this amount is in bills of $50 or larger, which are rarely ever seen by most citizens, suggests that large amounts are held or used outside channels that are regularly monitored by tax collectors and other bureaucrats (*e.g.*, by those involved in illegal drug transactions).

Secrecy in planning and surprise in execution would be the essential elements of any currency exchange designed to flush out the "underground" economy. The old bills would have to be removed from circulation and cease to be legal tender in short order. Otherwise those who acquired their currency holdings illegally, or without paying taxes, would have time to find the means to "launder" their holdings. If the old and the new currencies circulate side by side for any length of time, or if the date of the exchange is known in advance, then those who have something to hide will find ways to do so. To the extent that less old currency is turned in than is outstanding, holders of old currency will suffer a windfall "loss." Presumably such losses would be worth less to those who incur them than the costs associated with revealing their holdings.

But it should be noted that the effects of a currency exchange on the underground economy would be of a "one shot" variety. The exercise would have to be repeated again and again to have a sustained effect. And even a one-time exchange could have a most regrettable side effect. There is considerable evidence that very substantial amounts of U.S. currency are held outside the United States, especially by people who are attempting to cope with life under arbitrary authoritarian or totalitarian dictatorships of one sort or another. Foreign holders of small amounts of U.S. currency or those who are not part of their country's ruling elite would probably be unable to exchange their greenbacks for our new currency or would expose themselves to persecution if they attempted to do so. Thus, a major, and presumably unintended, consequence of a currency exchange that involved repudiation of its old currency would be to create a vast reservoir of ill will toward the United States and to sow the seeds of distrust of all dollar-denominated assets in many parts of the world.

February-March 1985 The "real" U.S. trade-weighted effective exchange rate (1980-82=100) peaked in February at 132.2. The nominal

U.S. trade-weighted effective exchange rate peaked in March at 136.9. In March, in terms of the U.S. dollar the German mark was worth 30.2 cents, the Swiss franc 35.6 cents, and the Japanese yen 0.39 cents.

February 25, 1985 The price of gold in London hit its low for the year at $284.25 per ounce.

March 9, 1985 Home State Savings Bank of Cincinnati closed.

March 29, 1985 Spain and Portugal agreed to become members of the European Economic Community, effective January 1, 1986.

May 17, 1985 The Federal Reserve lowers the discount rate from 8 percent to 7.5 percent.

July 1985 The lira's parity within the European Monetary System (EMS) was devalued by 6 percent, while the other member nations currencies were revalued by 2 percent.

July 16, 1985 The Federal Reserve Board announced changes in its M1 money supply growth rate targets and base level for the remainder of the year. The M1 growth rate range was "widened" from 4 to 7 percent to 3 to 8 percent. By June, M1 was $15 billion above the amount implied by the existing upper growth rate target, and any attempt by the Fed to bring the level of M1 within the upper-target amount or even to slow substantially its future growth was widely viewed as likely to push up interest rates, to retard real economic growth, the increase the foreign-exchange value of the dollar, to jeopardize troubled debtors at home and abroad, and to widen the U.S. current-account deficit.

August 19, 1985 The price of gold in London reached its high for the year (repeated on August 28) of $340.90 per ounce.

September 9, 1985 President Reagan imposed economic sanctions against South Africa, including restrictions on any new U.S. investment in South African enterprises.

September 10, 1985 The foreign ministers of the European Community approved sanctions against South Africa.

September 13, 1985 Canada imposed economic sanctions against South Africa.

September 22, 1985 Finance and monetary officials of the Group of Five (G-5) nations (the United States, Japan, Britain, West Germany, and France) in the so-called "Plaza Agreement" announced a joint program to reduce the foreign-exchange value of the dollar. The plan had three major elements: (1) the Reagan Administration would strive to reduce the U.S. Budget deficit and to block protectionist actions by

Congress; (2) European and Japanese governments would work for policies intended to make their economies more attractive to investors so that international investment demand (and related demand for currency) would switch from the United states to the other major currencies; and (3) all five would participate in coordinated direct intervention in the foreign-exchange markets to drive down the foreign-currency value of the dollar.

October 7, 1985 The IMF and World Bank meeting in Seoul, South Korea, announced the creation of a special lending pool of $2.7 billion to promote economic growth in the poorest countries. This special fund was to provide loans to qualifying countries without the economic adjustment requirements that usually are attached to World Bank lending. U.S. authorities said the United States was prepared to commit $500 million of additional funds to the fund, even though the plan was to be financed through loan repayments to the monetary fund and required no new injection of funds from donor members.

October 8, 1985 Treasury Secretary James Baker announced his plan to aid Third World debtors. This "Baker Plan" called for the closer linkage of the IMF and the World Bank. Accordingly, the IMF would continue to oversee changes in the debtor countries' broad economic policies and government spending levels (so-called structural adjustment) while the World Bank would be given broader authority to "prod" debtor countries to adjust their "microeconomic" policies. The plan also called for U.S. banks to "pledge" about $20 billion in new loans over 3 years to 15 debtor countries. Over the same period, international institutions — including the World Bank and the Inter-American Development Bank — would increase their loans by about 50 percent, or some $9 billion. In return, the debtors were expected to adjust their policies toward "sound" fiscal and monetary objectives.

October 11, 1985 An executive order issued by President Reagan banning the importation of South African Krugerrands became effective this date. However, Krugerrands — an estimated 15 million of which had been imported into the country prior to the importation ban — continue to be bought and sold regularly in the United States.

December 11, 1985 Congress passed the Gramm-Rudman-Hollings deficit reduction act, which President Reagan signed into law on December 12. According to the provisions of GRH, an "automatic" budget reduction process would go into effect if Congress failed to meet deficit reduction targets mandated by the Act, which included balancing the Federal budget by 1991. If Congress so failed, "across the board" cuts would be made in all but a few exempt Federal spending programs.

From a monetary perspective, it was widely believed at the time of the passage of GRH that the Act would relieve interest-rate pressures that continued multi-billion dollar deficit financing fostered, that both interest rates and price inflation would moderate as a result, and that U.S. fiscal responsibility would promote exchange-rate stability.

In practice, Congress so far has found loopholes that have permitted the lawmakers to meet the technical requirements of the Act, yet circumvent the actual budget balancing criteria. Many formerly "on-budget" items have been removed from the budget as "off-budget" expenditures; and the Social Security trust fund surpluses, which properly are reserves against future liabilities, have been included as current receipts for purposes of budget accounting. Even with such "sleight of hand" procedures, Congress deemed it necessary to amend GRH subsequently to allow Congress more time to curb its fiscal excesses.

December 17, 1985 President Reagan signed legislation authorizing the U.S. Treasury to mint and issue legal tender gold coins (not medallions) for the first time in more than half a century. According to the provisions of the Gold Bullion Coin Act of 1985, gold coins, which began sale on October 1, 1986, are issued in denominations of $5, $10, $25, and $50 and contain one-tenth, one-quarter, one-half, and one troy ounce of fine gold, respectively. (The gold content of the $10 coin is not is the same proportion to the face amount as in the other coins.) The coins have legal-tender status only for their stated dollar face amounts rather than their bullion values. However, they are sold at price that reflect market values for bullion plus costs of minting and issuing, and trade at price levels comparable to other newly minted bullion-type gold coins.

For gold to regain public recognition as the standard of exchange value, it would have been far more preferable if the new coins were not burdened with face values in terms of a fiat unit. A more accurate view of the relative usefulness of gold *vis-à-vis* the dollar as a monetary unit, and thus of the unreliability of fiat currencies, would be gained if the coins had no dollar face values.

The Act limited the source of gold for the new coins to domestically mined gold, and prohibited the use of U.S. gold reserves for mintage so long as newly mined domestic gold is available at "average world gold bullion prices."

December 31, 1985 At year end, the Consumer Price Index was 3.8 percent higher than at had been at year end 1984.

January 2, 1986 The London gold price reached its low for the year at $326.30 per ounce.

January 18-19, 1986 Group of Five finance and monetary officials met to reaffirm their commitment to the Plaza Agreement's provisions for driving down the dollar's foreign-exchange value. They also expressed the desire to see interest rates among member countries come down. Since the Plaza Agreement in September 1985, the dollar's value had decreased 18 percent against the Japanese yen, 15 percent against the German mark, and 13 percent against the Swiss franc.

March 6-7, 1986 Following the lead of Japan and West Germany, which on March 6 announced their central banks had cut interest rates, the Federal Reserve Board announced a cut in its discount rate from 7.5 to 7 percent.

March 17, 1986 The Japanese yen reached its highest value since the end of World War II, trading at about 174.50 to the U.S. dollar.

April 19-20, 1986 The Federal Reserve Board reduced the discount rate from 7 to 6.5 percent, the lowest rate since May 1978, when the discount rate started its ascent toward the 1980-81 peak of 14 percent. The Bank of Japan simultaneously announced that it would reduce its discount rate from 4 percent to 3.5 percent effective April 21.

May 4-6, 1986 Meeting in Tokyo, the finance ministers and monetary authorities of the leading industrial democracies announced the creation of a new international body to "coordinate" economic and monetary policies, the "Group of Seven" (G-7). The G-7 will comprise the finance ministers of 7 countries (the former G-5 countries plus Canada and Italy) who will hold permanent seats in the organization and will meet at annual economic summits to confer on coordinated economic policy actions. Among the stated purposes of the organization were: (a) promoting noninflationary economic growth; (b) strengthening market-oriented incentives for employment and productive investment; (c) opening the international trading and investment system; and (d) fostering greater stability in exchange rates. With respect to the latter, a plan introduced by Treasury Secretary James Baker called for joint intervention in foreign-exchange markets.

July 7, 1986 The U.S. Supreme Court declared a key provision of the Gramm-Rudman-Hollings Act, that which required automatic cuts to meet the deficit targets, unconstitutional. Under the terms of the legislation, the General Accounting Office, which is an agency of the legislative branch, would have been required to implement the spending cuts unilaterally in violation of Constitutional balance of power requirements between the executive and legislative branches of Government.

probable losses on its asset portfolio of about $14.7 billion of Third World debt.

June 2, 1987 The Reagan Administration announced Paul Volcker's decision not to accept another term as Fed Chairman and the appointment of Alan Greenspan as his successor. Greenspan assumed his new duties in August.

June 13, 1987 President Reagan announced a partial lifting of the tariffs imposed on Japanese electronic products last April.

August 7, 1987 Congress approved a $10.8 billion bailout for the bankrupt FSLIC. According to the legislation, the FSLIC was permitted to issue up to $10.8 billion in long-term debt securities over the next 3 years.

August 22, 1987 North Korea defaulted on some $770 million owed to European banks. North Korea had paid no principal or interest on its debt since March 1984.

August 28, 1987 The Federal Home Loan Bank Board (FHLBB) created a Financing Corporation, dubbed FICO, to administer the $10.8 billion FSLIC loan bailout approved by Congress this month.

September 7, 1987 The Federal Reserve Board increased the discount rate .5 percentage point from 5.5 percent to 6 percent.

September 24, 1987 The IMF announced plans to create a $6 billion special fund to provide "easy credit" to 60 of the world's poorest countries.

October 19, 1987 The stock market crashed. The Dow Jones Industrials Average plummeted a record 508 points, some 22.6 percent. The crash followed prior decreases of 200 points between August and October, and drops of 91.55 on October 6, 95.46 on October 14, and 108.36 on October 16. In response, the Federal Reserve Board announced its intention to provide "all the liquidity that is needed" to service the requirements of the financial markets. The Fed adopted a two-pronged policy: (1) to make available to banks and securities firms funds that are needed to carry them through the short-term squeezes brought on by the financial turmoil created by the crash; and (2) in a reversal of policy just prior to the crash, to ease up on interest-rate pressures.

October 19, 1987 Treasury Secretary James Baker and West Germany monetary authorities announced bilateral changes in the February G-7 Louvre Accord. Under the terms of the new understanding, West Germany and the United States would view that pact as "flexible"

and seek its alteration "to accommodate different exchange rates for the dollar and the mark and different understandings on monetary policy." In short, the Louvre Accord — which was held partly responsible for the stock market crash inasmuch as higher U.S. interest rates contributed to it — was seriously disrupted. As with all such international "agreements," it was voluntary. The inability of Germany, Japan, and the United States to "coordinate" policies simply illustrated again that, when "push comes to shove," perceived national interests override those of supranational organizations. The result, of course, is that such coordination schemes at best are a waste of effort; at worst, they are a serious interference with efficient market operations.

December 4, 1987 IMF representatives meeting in Paris announced the creation of an $8.4 billion fund to aid the poorest and most indebted developing countries, mostly in sub-Saharan Africa. Seventeen "donor" countries, including the United States, pledged $6.4 billion in aid over the next 3 years. They also agreed to offer the recipient countries debt relief, including cancellation altogether of outstanding loans.

December 10, 1987 The Department of Commerce reported a deficit in U.S. merchandise trade of $17.6 billion for the month of October, a record dollar amount for a single month. The October trade data were thought to be especially disappointing since the depreciation of the dollar against other currencies had been expected to make U.S. exports more competitive in world markets.

December 14, 1987 The London gold price attained its high for the year at $499.75 per ounce.

December 22, 1987 "Compromise" tax/budget legislation included a provision that denied the foreign tax credit for taxes paid (or withheld by) the South African government, to become effective January 1, 1988.

December 31, 1987 Since year-end 1986, the Consumer Price Index increased 4.4 percent.

January 8, 1988 The findings and recommendations of the Brady Commission, the "task force" created to investigate the October 1987 stock market crash, were released. Among the Commission's recommendations were: (1) that margin requirements be increased; (2) that a single regulatory body for all financial markets be created; (3) that limits be placed on price moves; and (4) that trading specialists meet higher capital requirements. In practice, none of these measures would likely prevent another "crash" if everyone wanted to sell at once at some future date. Rather, the higher margin and capital requirements to bankers, financiers, and takeover artists. To accomplish this, FHLBB officials sold at "bargain" prices and provided some $38.6 billion in financial assistance to buyers, including loan guarantees and outright cancellation of some obligations. During 1988, 222 thrifts were sold or merged via FSLIC and FHLBB intervention.

December 31, 1988 Since year-end 1987, the Consumer Price Index increased 4.4 percent.

January 1989 U.S. Government gold reserves were estimated to be 261.9 million ounces. This reserve amount compared with 264.6 million ounces in 1979; 338.8 million ounces in 1969; 508.7 million ounces at year-end 1960; and 652 million ounces at year-end 1950.

February 1989 President Bush outlined his plan for bailing out the S&L industry, which included some $50 billion in "off budget" financing. The "final" costs of the bailout of some 350 insolvent thrifts were then estimated to be as high as $126 billion (by year's end, some analysts suggested that as much as $300 billion in taxpayer funds would eventually be required to cover thrift losses).

According to the bailout plan, a new Government-sponsored agency, the Resolution Funding Corporation (RECO) will issue 30-year bonds to finance the recapitalization of the Federal Savings and Loan Insurance Corporation (FSLIC). Unlike Treasury bonds, the RECO bonds will not be backed by the full faith and credit of the U.S. Government. Many analysts predicted that even this bailout will be insufficient to cover expected FSLIC losses.

Government entities that find themselves in a debt squeeze have several options that are unavailable to private debtors. The easiest way for Governments to cancel debt is simply to refuse to pay some or all of it, as frequently has happened in relation to loans to Third World governments. Of course, such behavior destroys a country's international credit.

Our Government, on the other hand, often has shown a preference for "inflating debt away," an option that, because it surreptitiously reduces the real value of dollar claims over a period of years, is far more politically attractive than outright repudiation.

February 24, 1989 The Federal Reserve Board increased its discount rate from 6.5 to 7 percent.

June 1989 Despite the efforts of the G-7 monetary authorities to stabilize exchange rates through "coordinated" policy and public and secret agreements, the relative values of the major Western currencies

have continued to fluctuate wildly against the dollar. In the 9 months ending in June, the dollar appreciated 16.7 percent against the Japanese yen; 16.5 percent against the Swiss franc; and 13.2 percent against the Deutsche mark.

August 1989 President Bush signed into law the S&L bailout legislation described above, which Congress passed during the summer.

September 15, 1989 The London gold price hit its low for the year at $355.75 per ounce.

November 24, 1989 The London gold price reached its peak (through November) at $415.80 per ounce.

June-December 1989 European monetary officials worked to develop plans for a common European currency under a European Monetary Union (EMU). At year's end, the plan had been only vaguely described — with some member nation's proposing a seemingly contradictory "multi-currency" monetary union.

September-December 1989 A new savings and loan bailout scandal developed with the failure of Lincoln Savings and Loan, whose Chairman, Charles Keating, contributed millions of dollars in political contributions to Congressional leaders in charge of overseeing the operations of the S&L regulatory agency, now called the "Office of Thrift Supervision (OTS)." On December 4, former FHLBB Chairman and head of the OTS, M. Danny Wall, resigned. On December 11, President Bush announced that the $50 billion bailout legislation he signed into law in August "might not be enough" to cover the costs of the industry's problems. By mid-December, 424 thrift institutions were insolvent and under the management of the OTS, with estimates of eventual taxpayer bailout costs ranging as high as $300 million (as late as August they were estimated to total $159 billion over 10 years).

1986-89 One unintended consequence of the Gramm-Rudman-Hollings legislation that became law in late 1985 was that Congress quickly sought ways to continue to fund Government spending programs "off-budget." One principal means of doing so was through Government insurance and guaranteed loan programs (*i.e.*, subsidies) that have created huge unfunded contingent liabilities. The possible costs of these subsidy programs are virtually impossible to calculate, as Government outlays are not required until the guaranteed loans — student loans, Federally assisted housing loans, agricultural loans, small business (Government-sponsored enterprise) loans, or whatever — go bad. The eventual costs of such programs may not become apparent for a number of years.

Virtually all of these loans were made to borrowers who were *not* deemed creditworthy by private lenders. During difficult economic times — economic slowdowns or recessions — loan defaults multiply, and it is generally the least creditworthy who are the first to go. At year-end 1989, the total volume of contingent liabilities created by guaranteed loans to borrowers of questionable creditworthiness was estimated to be about $5 trillion (yes, *trillion*). At the same time, the most widely used statistical indicators of business conditions suggested that an economic slowdown, if not recession, loomed.

In short, while it is impossible to know what the magnitude of eventual losses to taxpayers may be, the costs of the Government's "hidden" spending soon could begin to become apparent — and presumably could dwarf even those of the S&L bailouts to date. If that occurred, the pressures to "inflate away" the real value of Government obligations could quickly become irresistible.