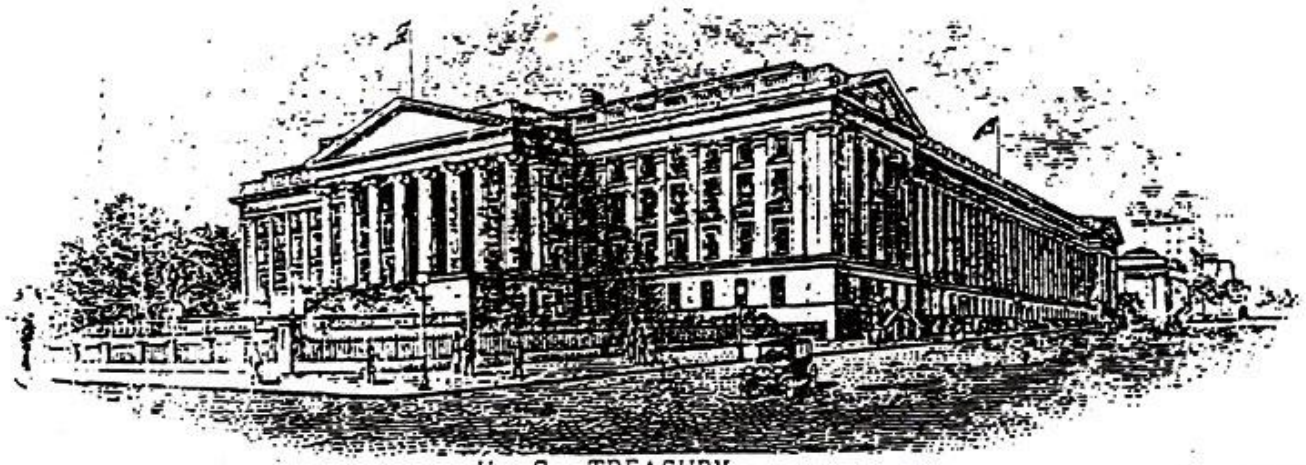
# TALES FROM THE TREASURY



U. S. TREASURY

COMPILED BY: BYRON DALE

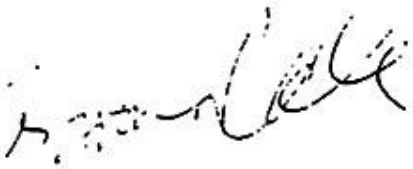
## PREFACE

Ever wonder why no matter how good a job you do, you never seem to get ahead? Why you seem to be going deeper in debt no matter how much money you make?

I did. I began to asking question and the answers will astound you.

It's not only me and you, but the national and corporate debt is growing at an astronomical pace. Where is all that money coming from?

Following, are my letters to the treasury and their answers. Read and see how the Bankers create all those $$$$ as bookkeepping entries and have total ownership to, then loan to us and charge interest for their use forever.



R.R. 2, Box 72
Timber Lake, SD 57656
September 1, 1982

Dolly Wells, Director of Consumer Affairs
Room 1320 Main Treasury
15th Street and Pennsylvania Ave. NW

Dear Ms. Wells;

In Sec. 314 of USCS 31 it states the standard unit value as "the dollar consisting of so many grains of gold, nine tenths fine, as established shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity."

I need to know what the standard unit of value is. Where can I find, in print, this information?

Thanking you for your reply, I am,

Sincerely yours,

Byron C. Dale

DEPARTMENT OF THE TREASURY

SEP 16 1982

Dear Mr. Dale:

This is in response to your letter of September 1 to Ms. Wells, Treasury's Director of Consumer Affairs, concerning Section 314 of the United States Code.

Beginning in 1792, statutes of the United States specified a formal gold content of the dollar (1 Stat. 246); at that time the dollar had a formal silver content as well (1 Stat. 246). This is not to say that the dollar was always backed by specie, however. Beginning in 1861 the federal government issued United States notes which were not redeemable in gold or silver. Under the Gold Resumption Act the United States notes became redeemable in gold in 1879. By the late 1800's United States notes, United States coin, Treasury notes of 1890, and silver certificates (redeemable in gold or silver at the option of the Treasury), issued by the government all circulated as money. (Private bank notes also circulated as money.) Beginning in 1900 the Gold Standard Act made it the duty of the Secretary of the Treasury to maintain all forms of money issued by the United States at parity with gold (31 U.S.C. 314, 31 Stat. 45). This was done by exchanging gold for each type of money and vice versa at a fixed ratio. This Act officially replaced bimetallism with the gold standard. However, as a practical matter the Nation had been on a gold standard since 1879, because the Treasury had chosen to redeem silver certificates in gold.

By Section 43(b)(2) of the Act of May 12, 1933 (48 Stat. 52), the President was authorized to change the gold content of the dollar within certain limits, but the parity provision was not changed in substance. By Proclamation No. 2072, dated January 31, 1934 (48 Stat. 1730), President Roosevelt exercised his powers under the 1933 statute, as amended by Section 12 of the Gold Reserve Act of 1934 (48 Stat. 342), to change the gold content of the dollar from 25.8 grains of gold 9/10ths fine, corresponding to a price of $20.67 per ounce, to 15 5/21 grains, 9/10ths fine, corresponding to the price of $35 per ounce. The President's authority to change the gold content of the dollar expired on June 30, 1943 (55 Stat. 396) after which time only Congress, by statute, could establish the value of the dollar in terms of gold. The definition of the dollar in terms of gold at $35 per fine troy ounce was retained until 1972. However, during this period it is important to note the changing monetary role of gold with respect to U.S. currency.

The United States officially abandoned the domestic gold standard in 1933-1934. Pursuant to authority provided in the Emergency Banking Relief Act of March 9, 1933, gold held by private persons in the United States was required to be surrendered to the Government [48 Stat. 2, 12 U.S.C. 248 (n)]. The Gold Reserve Act of 1934 prohibited private ownership of gold and provided for the termination of gold coinage and for the withdrawal from circulation and melting down of existing gold coins. All acts and parts of acts inconsistent with the Gold Reserve Act of 1934, including 31 U.S. Code Section 314, were repealed by 31 U.S. Code Section 446. Redemption of any currency of the United States in gold was, and remains, prohibited. (48 Stat. 340, 31 U.S.C. 315b and 408a).

These actions effectively removed the domestic monetary system's direct link with gold. However, the provisions in the Federal Reserve Act of 1913 for a 35 percent gold certificate reserve against required deposits by banks with the Federal Reserve, and a 40 percent reserve against Federal Reserve notes in circulation, remained in force. By an Act of June 12, 1945, both reserve requirements were reduced to 25 percent (59 Stat. 237). By Public Law 89-3 of March 3, 1965 (79 Stat. 5) the gold certificate reserve against Federal Reserve deposits was eliminated entirely; Public Law 90-269 of March 18, 1968 (82 Stat. 50), removed entirely the gold reserve requirement against Federal Reserve notes in circulation in order to make available additional amounts of gold for international monetary transactions.

The Coinage Act of 1965 discontinued silver coinage (79 Stat. 254, 31 U.S.C. 391). After a one year grace period, redemption of silver certificates in silver was discontinued as of June 24, 1968 pursuant to the Act of June 24, 1967 (81 Stat. 77).

I hope that this information is useful to you.

Sincerely,

Russell L. Munk
Assistant General Counsel
(International Affairs)

Mr. Byron C. Dale
R.R. 2, Box 72
Timber Lake, SD 57656

Roure 2, Box 72
Timber Lake, S.D. 57656
October 9, 1982

Department of the Treasury
Office of the General Counsel
Washingron,DC 20220

Dear Sirs:

I have a few questions that I need answers to:

1. What is money?
2. Where does money come from?
3. How is it created?
4. By whom and for what purose is money created?
5. Who decides how much money shall be in use at any one time?
6. Who decides how much will be paid for the use of money?
7. Why should there be a fee for the use of money if it is created?
8. What is a treasury note?
9. How does it differ from a United States Note?
10. What is a Federal Reserve Note?
11. What is a T bill?
12. What is a National Gold Bank?
13. Who are the National Gold Banks?

Thanking you very much for your answers. I am,

Sincerely yours,

Byron C. Dale

DEPARTMENT OF THE TREASURY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON D.C. 20220

NOV 1 1982

Dear Mr. Dale:

This is in response to your letter of October 9 to Treasury Department's Office of the General Counsel in which you raised a number of questions.

The Board of Governors of the Federal Reserve System has the responsibility for determining United States monetary policy. With the assistance of the twelve Federal Reserve Banks, the Board manages the Nation's money supply. Since our economy has grown between 1913 when the Federal Reserve System was founded and the present, this ordinarily means that the Board determines the rate of increase in the money supply.

When the economy grows there are more economic transactions, and more money is needed to pay for them. If the Board were to decrease the money supply during a period of economic growth, it could stop the growth. Of course, if the Board increases the money supply too rapidly, it can cause inflation.

If the money supply is to be increased, money must be created. The Federal Reserve Board (or "the Fed" as it is often called) has several ways of allowing money to be created, but the actual creation of money always involves the extension of credit by private commercial banks.

Modern banking is often explained by analogy with the practices of goldsmiths in early seventeenth century England. These goldsmiths held their customers' gold in safekeeping and issued notes to the customers instead, promising to deliver the gold on demand. The goldsmiths discovered that the customers would not all want the gold back at the same time, so it was safe to loan the gold to someone else in the meantime. When the goldsmith loaned the gold out, he had created money. Obviously, the amount of gold had not increased, but the note promising to pay gold circulated as money and so did the gold it was based on -- before the goldsmith intervened only the gold circulated as money. It was an easy step to making the loan in the form of a note promising to pay gold, and keeping the gold safely in vaults at all times. Then only the notes circulated as money. Nothing limited the number of notes the goldsmith could issue except the fact that he did have to pay gold if anyone presented them to him. If he issued too many people would not believe that he would be able to pay, and would refuse to accept them. To avoid this problem, prudent goldsmiths -- and, later, prudent bankers -- always kept a certain amount of gold on hand as a reserve.

Modern banks operate in a similar way, with several important differences. One is that they are required by law to keep reserves equal to a percentage of their deposits. The Fed has the power to change this "reserve requirement" but, generally, the ratio of deposits to reserves is kept at about six to one. This means that the private, commercial banks cannot create all the money they might like to create. They are limited by the amount of reserves which they possess. Another difference is that the reserves now consist of cash (coins and paper money) and of deposits with the twelve Federal Reserve Banks, instead of gold. (The twelve Federal Reserve Banks are called "bankers' banks," because the member banks, the United States Government, and foreign governments keep deposits there.)

In both the goldsmiths' practice and in modern banking, new money is created by offering loans to customers. A private, commercial bank which has just received extra reserves from the Fed (by borrowing reserves for example) can make roughly six dollars in loans for every one dollar in reserves it obtains from the Fed. How does it get six dollars from one dollar? It simply makes book entries for its loan customers saying "you have a deposit of six dollars with us." Why does this work - how can the bank pay out money to all the borrowers? The answer is that in practice the borrowers don't all withdraw their money at the same time, any more than the goldsmiths' customers did in the seventeenth century, especially since the Federal Deposit Insurance Corporation insures that the customers can leave their money in the bank without worrying about losing it. (Actually, the borrowers might take their deposits to other banks, but the result -- the creation of money -- is exactly the same if one then looks at all banks taken together rather than at the bank which made the initial loan.)

The advantage of creating money by extending loans is that the new money goes to people that the bank believes will be able to pay it back. In general, this means that the money will go to people who are engaged in productive economic activity. Ideally, the new money will serve to channel real resources into productive use and, ideally, the new money will be created by banks only when there is loan demand in the first place, that is, only when more economic activity is taking place and more money is needed to finance it. You may want to know whether the bank is the one getting the benefit of the new money, since the bank owns the new money while the customer has merely borrowed the money. The bank does indeed get the benefit of the new money. However, if the bank loses reserves for any reason (say, by paying back to the Federal Reserve Banks the reserves which it has borrowed) then it must call in its loans and stop making new ones until it has reduced its deposits by six dollars for every one dollar of reserves it loses. In this case the money supply has decreased, and it is the bank which has suffered the loss of the money.

Banks created money in this way long before the Federal Reserve System existed. The Federal Reserve System limits banks'

ability to create money, in order to ensure that our currency, our monetary system, and our economy are sound. Otherwise, banks might tend to create too much money, as they often did in the past before they were effectively controlled by governments. (In the nineteenth century banks created money primarily by providing bank notes and in the twentieth century they created money primarily by providing checking accounts as checks took the place of bank notes.)

"Money" is often defined to be currency (paper money) and coins, plus checking and savings accounts. Currency and coins are actually the less important part of the money supply, because there is less of them. In June 1981 the money supply consisted of approximately $120 billion in currency, $10 billion in coin, $240 billion in demand deposits, $70 billion in other checking accounts (e.g. NOW accounts) and $360 billion in savings deposits.

Many writers simply state that the Fed creates money, without mentioning the banks. This is because they assume that the banks will "stay loaned up" to the limit of the law, and, in fact, banks do endeavor to put all of their reserves to use because it is profitable. This gives the Fed the policy choice -- the opportunity to control the money supply by controlling the amount of reserves available to banks.

The Fed has several ways of controlling the total amount of reserves in the system. One has already been mentioned, namely the fact that the Federal Reserve Banks can lend reserves to the private, commercial banks. To do this, the Federal Reserve Bank simply makes a new entry on its books showing that the borrowing bank has more dollars in its account with the Federal Reserve Bank (i.e., its "reserve account"). Since deposits with a Federal Reserve Bank are legal reserves for the private bank, the private bank can then increase its own lending by a multiple of the increase in its account with the Fed. When the private bank repays the Fed, it will do so by "paying" reserves to the Fed so that its account with the Fed is again drawn down. At that point the private bank may have to reduce its loans and lower its total amount of deposits.

The tool the Fed uses most often to control the money supply is what is called "open market operations," i.e. buying and selling U.S. Government bonds. When the Fed buys government bonds, it pays for them with a check on itself. When a buyer deposits this check with his bank, the bank presents it to the Fed and receives credit for the appropriate amount in its account with the Fed (its "reserve account"). But of course a bank's account with the Fed is its legal reserve, so once it has a new credit with the Fed it can expand its deposits by a multiple of that new credit. Therefore, when the Fed buys bonds, the ability of the banking system to increase the money supply goes up.

If the Fed sells government securities, the banks pay the Fed

by drawing down their legal reserves. They are then forced to call in loans until they have reduced the total amount of their deposits to the amount which their lower level of legal reserves will cover.

That is how the Federal Reserve helps to decrease or increase the money supply.

The Federal Reserve allows banks to choose what portion of their reserves they hold as cash in their own vaults and what part they keep as deposits with the Fed. If banks start asking for more currency, the Fed will have more printed. The bank must pay for the currency by drawing down its reserve account at the Fed.

However, currency held at a bank and a bank's deposit account with the Fed serve equally as legal reserves. It is through increasing the total amount of reserves, deposits with the Fed and currency held in banks taken together, that the Fed increases the money supply. Quantitatively, the most important step in increasing the money supply is the increase in loans and deposits in private banks; increases in paper money are small in comparison. People still talk of the Fed "running the printing presses", but that is just a figure of speech referring to the more complicated transactions which actually take place.

The twelve Federal Reserve Banks are not required to hold assets against their deposit liabilities. They are required to hold assets against their note liabilities equal in value to the amount of outstanding Federal Reserve notes (12 U.S.C. 412). Eligible collateral includes gold certificates, Special Drawing Right certificates, U.S. Government securities and commercial paper received as collateral in making loans. However, Federal Reserve notes are not redeemable in this collateral or in gold or silver. They are redeemable only in United States coin or in other United States currency.

Federal Reserve notes are legal tender currency (31 U.S.C. 392). They are issued by the twelve Federal Reserve Banks pursuant to Section 16 of the Federal Reserve Act of 1913 (12 U.S.C. 411). A commercial bank which belongs to the Federal Reserve System can obtain Federal Reserve notes from the Federal Reserve Bank in its district whenever it wishes, but it must pay for them in full, dollar for dollar, by drawing down its account with its district Federal Reserve Bank.

The Federal Reserve Bank in turn obtains the notes from the Bureau of Engraving and Printing in the United States Treasury Department. It pays to the Bureau the cost of producing the notes. The Federal Reserve notes then become liabilities of the twelve Federal Reserve Banks. Because the notes are Federal Reserve liabilities, the issuing Bank records both a liability and an asset when it receives the notes from the Bureau of Engraving and Printing, and therefore does not show any earnings

as a result of the transaction.

In addition to being liabilities of the Federal Reserve Banks, Federal Reserve notes are obligations of the United States Government (12 U.S.C. 411). Congress has specified that a Federal Reserve Bank must hold collateral (chiefly gold certificates and United States securities) equal in value to the Federal Reserve notes which that Bank receives (12 U.S.C. 412). The purpose of this section, initially enacted in 1913, was to provide backing for the note issue. The idea was that if the Federal Reserve System were ever dissolved, the United States would take over the notes (liabilities) thus meeting the requirements of Section 411, but would also take over the assets, which would be of equal value. The notes are a first lien on all the assets of the Federal Reserve Banks, as well as on the collateral specifically held against them (12 U.S.C. 412).

Federal Reserve notes are not redeemable in gold or silver or in any other commodity. They have not been redeemable since 1933. In the sense that they are not redeemable, Federal Reserve notes have not been backed by anything since 1933. They are valued not for themselves, but for what they will buy. In another sense, because they are a legal tender, Federal Reserve notes are "backed" by all the goods and services in the economy.

Both United States notes and Federal Reserve notes are part of our national currency and are legal tender; they circulate as money in the same way. However, the authority under which they are issued derives from different statutes. United States notes were authorized by the Legal Tender Act of 1862, while Federal Reserve Notes were authorized by the Federal Reserve Act of 1913. United States notes are issued directly by the United States Treasury and are obligations of the United States. Federal Reserve notes are issued by the Federal Reserve System and are obligations of both the Federal Reserve System and the United States Government.

Illegal

United States notes were originally issued during the Civil War. The total amount which may be issued is limited to three hundred million dollars (31 U.S.C. 402). While this was a significant figure in Civil War days, it is now a very small fraction of total currency in circulation in the United States. As of March 31, 1982, total U.S. currency in circulation was $128,853 million of which $.305 million was United States notes. The United States note is issued only in the $100 denomination, although it was issued in smaller denominations in the past.

In general "lawful money" means the same thing as "legal tender" (Black's Law Dictionary, 4th ed. (1968), p. 1032), but 12 U.S.C. 152 is an exception. Code sections 151 and 152 of Title 12 concern national gold banks, which are called "association(s) organized under Section 151 of this Title" and "associations organized for issuing gold notes" in the code. In order to explain why the term "lawful money" was used in Section 152, it

is necessary briefly to examine the history of private bank notes.

In the 1300's, private commercial banks issued bank notes which served as money. In other words, the bank notes were a privately issued paper money. There was nothing illegal about using them, but on the other hand no law required anyone to accept them. Therefore they were not considered "lawful money." The term "lawful money" was reserved for money which the law did require people to accept, i.e., legal tender money. The national laws regulating national banks, and most of the state laws regulating state banks as well, required the banks to stand ready to redeem their bank notes in "lawful money." After the United States began to issue paper money, following the passage of the Legal Tender Act of February 25, 1862, 12 Stat. 345, this meant that the private banks could redeem their notes in United States coin or in United States notes.

The National Bank Act of June 3, 1864, 13 Stat. 99, required national banks to redeem their notes in "lawful money." National Bank Act of June 3, 1864, Section 46, 13 Stat. 113. The National banks were required to maintain reserves in lawful money equal to 25% of the total of their checking deposits and bank notes. National Bank Act of June 3, 1864, Section 31, 13 Stat. 108. They were allowed to issue notes in amounts not exceeding 90% of their holdings of registered United States bonds. National Bank Act of June 3, 1864, Section 21, 13 Stat. 105. National banks were founded in most parts of the country after the enactment of the National Bank Act. However, in California most people preferred to deal in gold rather than in bank notes, and no national banks had been started there as late as 1870. Congress then amended the National Bank Act to allow for a separate category of banks, which would redeem their bank notes in gold coin only, rather than in coin and paper money. Act of July 12, 1870, 16 Stat. 251 at 252. It was thought that such bank notes would be more acceptable to Californians. The amendment spelled out the special requirements for gold banks, namely redemption of notes in gold coin, maintenance of a reserve of gold or silver coin equal to 25% of the note issue, and a limit on the amount of the notes to be issued of 80% of the amount of registered United States bonds held by the issuing bank. Act of July 12, 1870, sections 3 and 4, 16 Stat. 252. The amendment also provided that the National Bank Act would govern the functions of gold banks, but that in applying that act to gold banks "the term 'lawful money,' and 'lawful money of the United States' shall be held and construed to mean gold or silver coin of the United States." Act of July 12, 1870, Section 5, 16 Stat. 253. It is the last provision which is codified at 12 USC 152. The provision had to be added for the sake of clarity. Otherwise, the Act of July 12, 1870 would require the gold banks to redeem their notes in gold and to maintain reserves in gold or silver coin and the National Bank Act would allow them to redeem their notes in "lawful money" including paper money and to maintain reserves in paper money.

No national gold banks exist today. It would be impossible to organize a new one for two reasons. First, only bonds "bearing the circulation privilege" can be registered and used to satisfy the requirement that the gold bank hold bonds, and the United States has ceased issuing bonds bearing the circulation privilege. See 31 USC 753d, 31 USC 757c(d), 31 USC 757c-2(c) 31 USC 758. The last bonds having the circulation privilege matured in 1935. (That is why national bank do not issue bank notes today.) Second, the United States no longer mints gold coins.

Most people who write in with questions concerning the term "lawful money" are interested in its relevance to the issuance of United States currency. Section 152 of Title 12 of the United States Code applies only to national gold banks and therefore has no relevance to the issuance of currency by the United States.

The term "lawful money" does have some importance in the history of United States currency, however. When Federal Reserve notes were first issued under Section 16 of the Federal Reserve Act of 1913, 12 USC 411, 38 Stat. 265 they were not legal tender. Therefore, they were not "lawful money," although, like private bank notes they were of course perfectly legal. Although the Federal Reserve notes were not themselves lawful money, they were redeemable in gold and in lawful money (i.e., United States notes and coin) until 1933. Federal Reserve Act of 1913, section 16, 12 USC 411, 38 Stat. 265. In 1933, Federal Reserve notes were made legal tender. See 31 USC 392, which was adopted in 1965 to replace 31 USC 462, enacted in 1933. Since that time Federal Reserve notes, as well as all other United States currency and coins, have been "lawful money".

In 1934, 12 USC 411 was amended to delete the requirement that Federal Reserve notes be redeemable in gold. Gold Reserve Act of 1934, 48 Stat. 337.

Treasury notes are securities issued by the Treasury Department with a maturity at issue of 1 to 10 years. These notes bear interest.

Treasury bills are securities issued by the Treasury Department with a maturity at issue of one year or less. These bills do not bear interest; they are issued at a discount from their face value and redeemed by Treasury at maturity for their full face value.

You may be interested in the enclosed article on the definition of "money."

I hope that this information is useful to you.

Sincerely yours,

Russell L. Munk
Assistant General Counsel
(International Affairs)

Mr. Byron C. Dale
R.R. 1, Box 72
Timber Lake, SD 57656

Enclosure

A2

R.R. 2, Box 72
Timberlake, South Dakota 57656
November 15, 1982

U. S. Treasurey
Bureau of Engraving and Printing
Washington, D.C. 20228.

Dear Sirs;

Enclosed please find a one dollar bill, or one hundred cents, with this I wish to purchase one hundred - one hundred ($100) dollar bills. I understand this is the price you charge the Federal Reserve Banks to print them for their use.

I must remind you that if you don't honor this, and continue to sell only to the Federal Reserve Banks, then I will seek legal action for violation of the Anit-trust laws.

Respectfully,

Byron C. Dale

BD/jcd
Enc: $1.00-Serial number I 24276609 B
Series 1977 A

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
WASHINGTON, D C 20228

December 14, 1982

Mr. Byron C. Dale
R.R. 2, Box 72
Timberlake, South Dakota 57656

Dear Mr. Dale:

This is in response to your letter of November 15, 1982 in which you enclose a $1 Federal Reserve note and request to purchase one hundred dollar bills.

The Bureau of Engraving and Printing produces the Nation's paper currency and sells it to the Federal Reserve System for $20.60 per one thousand notes. The notes, however, are not money until they are monetarized and issued by a Federal Reserve Bank. To obtain notes, a Federal Reserve Bank must pledge collateral equal to the face value of the note. Collateral must consist of the following assets, alone or in any combination: 1) gold certificates, 2) special Drawing Right certificates, 3) U.S. Government securities, and 4) "eligible paper," as described by Statute.

Federal Reserve Notes are obligations of the United States, and have a first lien on the assets of the issuing Federal Reserve bank. Money without backing is worthless, and in effect, you are suggesting that currency be printed without the necessary collateral which is required of the Federal Reserve Bank.

I hope this information is helpful. Your $1 FR note is returned.

Sincerely,

M. M. Schneider
Acting Executive Assistant

Enclosure

[illegible], Box 11
[illegible], South Dakota
November 16, 1982

Department of the Treasury
Office of the General Counsel
Washington, D.C. 20220

Dear Mr. Hunt;

In your letter of November 1, 1982, you stated that the Board of Governors of the Federal Reserve System has the responsibility for determining the United States Monetary Policy. Would you please tell me who these policy makers are and what they did before taking their present position. To be very specific, I would also like to know who the owners are of the Federal Reserve Bank of Minneapolis.

Another statement you made was that if the board (FRS) were to decrease the money supply it could stop the growth of the economy. Is that why we are now having such a down turn in the economy? Have the Feds decreased the money supply so drastically or raised the interest so high that it has resulted in a severe decrease in the money supply resulting in a record breaking number of bankruptcies?

Another point I need you to clarify, if money is only created by extension of credit and a book entry, where does the money come from to pay interest on the borrowed money?

Please refer back to you letter of September 16, 1982. You stated the definition of the dollar in terms of gold at $35 per fine troy ounce was retained until 1972. You left me up in the air. How was the definition of the dollar changed or was the price of gold changed or is there some other explanation? Please clear this up for me.

Thanking you for your prompt and informative reply, I am,

Sincerely yours,

DEPARTMENT OF THE TREASURY
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, D.C. 20220

JAN 6 1983

Dear Mr. Dale:

This is in response to your letter of November 16, 1982.

Enclosed are some materials on the Federal Reserve System. I suggest that you contact the Federal Reserve Bank of Minneapolis as to its membership. I also suggest that you contact the Federal Reserve Board of Governors concerning the relationship between the monetary policy of the Federal Open Market Committee and the current state of the economy.

Money for paying interest on borrowed money comes from the same source as other money comes from. In this connection, you may be interested in the enclosed article on money.

You also asked about the definition of the dollar in terms of gold. In addition to the information contained in my letter to you of September 16, 1982, you may be interested to know that during the 1700's and into the 1800's, most nations made international settlements in both gold and silver, but by the late 1800's gold had largely replaced silver. The international gold standard broke down during the 1930's, but a system of fixed exchange rates defined in gold was re-established after World War II.

In 1945, the Bretton Woods Agreements Act (59 Stat. 512, 22 U.S.C. 286 et. seq.) was enacted, which provided for U.S. membership in the International Monetary Fund (IMF). Under the Articles of Agreement of the IMF, each member of the IMF was required to establish a par value for its currency, expressed in terms of gold, and to take appropriate measures to permit within its territories exchange transactions between its own currency and those of other IMF members only within prescribed margins of the par value for its currency of $35 per fine troy ounce, and as authorized by the IMF-prescribed margins, for the official settlement of international transactions.

On March 31, 1972, Public Law 92-268 (86 Stat. 116), the Par Value Modification Act, was enacted, by which Congress established a new par value for the dollar equal to one thirty-eighth of a fine troy ounce of gold. On September 21, 1973, Public Law 93-110 (87 Stat. 353), the Par Value Modification Act was amended by changing the par value of the dollar to equal "0.828948 Special Drawing Right or, the equivalent in terms of gold, of forty-two and two-ninths dollars per fine troy ounce of gold". Definition of the dollar in terms of gold was solely for the purpose of meeting U.S. obligations in the

International Monetary Fund. The only domestic purpose for which the legal definition of the dollar in terms of gold continued to be relevant, was the issuance of gold certificates to Federal Reserve Banks pursuant to section 2(a) of the Gold Reserve Act of 1934 (31 U.S.C. 5117).

The par value of the dollar, established by Section 2 of the Par Value Modification Act, was repealed by Section 6 of Public Law 94-564 (90 Stat. 2660). Under Section 9 of that Act, the repeal became effective "upon entry into force of the amendments to the Articles of Agreement of the International Monetary Fund approved in resolution numbered 31-4 of the Board of Governors of the Fund", i.e., adoption by the IMF of the proposed Second Amendment to the Articles of Agreement of the IMF. Under the amended IMF Articles Agreement, which became effective April 1, 1978, the United States has no legal obligation to establish and maintain a par value for the dollar.

I hope that this information is useful to you.

Sincerely yours,

Russell L. Munk

Russell L. Munk
Assistant General Counsel
(International Affairs)

Mr. Bryon C. Dale
R.R. 2, Box 72
Timber Lake, SD 57656

Enclosures

1116 1st Ave W.
Mobridge, SD 57601
October 13, 1983

Department of the Treasury
Director of the Mint
Bureau of the Mint
Washington, DC 20220

Dear Sirs:

I understand a one dollar coin weights 125 grains of which 87.5% is copper and 12.5% is nickel. The 25 cent coin weighs 87.5 grains of which 91.67% is copper and 8.33% is nickel and so forth for the rest of the coins.

Please tell me what are the metal costs for making the $1.00 coin? What are the metal costs for making the .50 cent coin? What are the metal cost for making the 25 cent coin? What are the metal cost for making the 10 cent coin? What are the metal cost for making the 5 cent coin? What are the metal cost to make the 1 cent coin?

Please tell me how and where does the Bureau of the mint get the metals to make the coins. How does the Treasury pay for the metals that the coins are made from? How are the coins put into circulation?

Sincerely,

Byron Dale

DEPARTMENT OF THE TREASURY
BUREAU OF THE MINT
WASHINGTON DC 20220

OFFICE OF
DIRECTOR OF THE MINT

NOV 2 1983

Mr. Byron C. Dale
1116 1st Avenue West
Mobridge, SD 57601

Dear Mr. Dale:

This is in response to your letter of October 13, 1983, concerning our nation's coinage. Specifically, you requested information on the metal composition of each coin, how they are placed into circulation, and the legal tender status of money in general.

As for the metal composition of our coins, please note the following:

| | | |
|---|---|---|
| $1.00 | weight - | 125.0 grains |
| | 109.4 grains copper and | 15.6 grains nickel |
| | copper - 87.5% | nickel - 12.5% |
| 50¢ | weight - | 175.0 grains |
| | 160.4 grains copper and | 14.6 grains nickel |
| | copper - 91.67% | nickel - 8.33% |
| 25¢ | weight - | 87.5 grains |
| | 80.2 grains copper and | 7.3 grains nickel |
| | copper - 91.67% | nickel - 8.33% |
| 10¢ | weight - | 35.0 grains |
| | 82.1 grains copper and | 2.9 grains nickel |
| | copper 91.67% | nickel - 8.33% |
| 5¢ | weight - | 77.16 grains |
| | 57.87 grains copper and | 19.29 grains nickel |
| | copper - 75% | nickel - 25% |
| 1¢ | weight - | 38.58 grains |
| | 0.96 grains copper and | 37.62 grains zinc |
| | copper - 2.5% | zinc - 97.5% |
| 1¢ | weight - | 48.0 grains |
| | 45.6 grains copper and | 2.4 grains zinc |
| | copper 95% | zinc - 5% |

The headquarters of the Bureau of the Mint is located in Washington, D.C. The Mints are situated in Philadelphia, PA and Denver, CO. The U.S. Assay Office, San Francisco, CA, operates as a mint, producing general circulation and numismatic coins. The West Point Depository, N.Y., also produces coins.

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D C 20220

November 10, 1987

Mr. Byron Dale
1116 1st Avenue W
Mobridge, SD 57601

Dear Mr. Dale:

This in response to your letter of October 26, 1987 in which you inquired about the United States Mint coinage system.

Enclosed is a chart giving the weight, metal composition, and metal cost per denomination.

The United States Mint purchases coinage metals under sealed bidding procedures on an average monthly basis. A special fund named the Treasury Coinage Metal Fund is used to make payment for the metals. In actuality we are trading one asset for another asset, money for coinage metal.

Mint coinage stocks are shipped directly to the Federal Reserve banks and branches which, in turn, release them as required by the commercial banking system. When a shipment arrives at a Federal Reserve bank, it is stored until needed to fill orders from the commercial banks, whose responsibility it is to supply businesses and the public. If a commercial bank has excess cash on hand, the coin may be returned to the Federal Reserve banks. Here it is sorted for fitness. The Federal Reserve banks fill commercial bank orders from their vault stocks of both new and circulated coins.

We hope the above information has been helpful. Thank you for your interest in the United States Mint coinage system.

Sincerely,

Jerry A. Yellin
Chief Assayer

Enclosure: Metal Cost per Denomination

Last year, the Bureau of the Mint spent approximately $201,002,000.00 (operating costs and metal costs) to produce the coin supply of the U.S. The Mint distributes the coins for general circulation through the 12 Federal Reserve banks and their 25 branches. During last year, the Mint shipped 16,501,576,624 newly manufactured coins with a face value of $661,514,541.00.

Lastly, you asked what money is considered legal tender. Pursuant to statute, 31 U.S.C. 5103,

> United States coins and currency (including federal reserve notes and circulating notes of federal reserve banks and national banks) are legal tender for all debts. Foreign gold or silver coins are not legal tender for debts.

We hope this response is helpful. If we can provide any further information, please let us know.

Sincerely,

Kenneth B. Gubin
Counsel to the Mint

UNITED STATES MINT
METAL COST PER DENOMINATION

| DENOMINATION | PRODUCTION | STANDARD WEIGHT (Grains) | / 7000 = STANDARD POUNDS | METAL COMPOSITION | ALLOY LBS @ STANDARD WEIGHT | COST* PER LB. | TOTAL METAL COST |
|---|---|---|---|---|---|---|---|
| 1 Cent | 1 | 38.58 | 0 | 2.50 Cu | 0 | $0.88 | $0.00012 |
| | | | | 97.50 Zn | 0 | $0.44 | $0.00236 |
| 5 Cent | 1 | 77.16 | 0 | 75.00 Cu | 0 | $0.88 | $0.00728 |
| | | | | 25.00 Ni | 0 | $2.80 | $0.00772 |
| 10 Cent | 1 | 35.00 | 0 | 91.67 Cu | 0 | $0.88 | $0.00403 |
| | | | | 8.33 Ni | 0 | $2.80 | $0.00117 |
| 25 Cent | 1 | 87.50 | 0 | 91.67 Cu | 0 | $0.88 | $0.01008 |
| | | | | 8.33 Ni | 0 | $2.80 | $0.00292 |
| 50 Cent | 1 | 175.00 | 0 | 91.67 Cu | 0 | $0.88 | $0.02017 |
| | | | | 8.33 Ni | 0 | $2.80 | $0.00583 |
| 1 Dollar | 1 | 125.00 | 0 | 87.50 Cu | 0 | $0.88 | $0.01375 |
| | | | | 12.50 Ni | 0 | $2.80 | $0.00625 |

* Average market price of metal as of October 23, 1987.

## COST AND SEIGNIORAGE PER COIN

Based on Fiscal Year 1980 Actual Operations

| Denomination | Metal and Fabrication of Strip Cost | Manufacturing Cost | Total Metal Fabrication and Manufacturing Cost 1/ | Seigniorage |
|---|---|---|---|---|
| 1¢ | .0064 | .0014 | .0078 | .0022 |
| 5¢ | .0142 | .0050 | .0192 | .0308 |
| 10¢ | .0062 | .0033 | .0095 | .0905 |
| 25¢ | .0138 | .0079 | .0217 | .2283 |
| 50¢ | .0274 | .0130 | .0404 | .4596 |
| $1 Anthony | .0261 | .0049 | .0310 | .9690 |

1/ Includes depreciation.

Bureau of the Mint
Office of Budget and Finance
January 15, 1981

Byron C. Dale
Secretary, Treasurer
Commercial Trusr of South Dakota
P.O. Box 53
Mobridge, SD 57601

Department of rhe Treaury
Bureau of Engraving and Printing
Washington, DC 20228

Dear Sirs;

Please find inclosed $412.00 plus rwo million in collateral. Please send me 20,000 one hundred dollar bills. I understand this is what is required from the federal reserve banks to print them for there use.

Sincerely,

Byron C. Dale

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
WASHINGTON D C 20225

March 27, 1987

Mr. Byron C. Dale
Secretary, Treasurer
Commercial Trust of South Dakota
Post Office Box 53
Mobridge, South Dakota 57601

Dear Mr. Dale:

Your personal check #020 for $412 00 is herewith returned.

The Bureau of Engraving and Printing is not authorized to print or issue United States paper currency for direct delivery to the public. Currency notes are placed into circulation by your local financial organizations and can only be obtained from that source.

We can be of no further assistance to you in this matter.

Sincerely,

Linda W. Coleman
External Affairs Staff

Enclosure:

DEPARTMENT OF THE TREASURY
UNITED STATES MINT
WASHINGTON, D C 20220

DIRECTOR
OF THE
MINT

March 16, 1988

Mr. Byron Dale
Box 389
Luderson Hall
Springfield, SD 57602

Dear Mr. Dale:

This is in response to Congressman Tim Johnson's letter of February 15 to the Assistant Secretary for Legislative Affairs of the Treasury Department on your behalf. We are responding to your request for clarifying information about the cost and profit generated from the production of coins. You also expressed an interest in what impact the profit would have on the national debt.

Seigniorage results from the production of coins and is defined as the difference between the face value and the manufacturing expense. The amount raised from seigniorage is deposited into the general fund of the U.S. Treasury. Seigniorage, however, is not considered in determining each year's budget deficit.

In 1980, the last year of production for circulation, the dollar coin was produced at a cost of 3.1 cents and the half dollar was produced at a cost of 4.04 cents. The half dollar is the larger sized coin requiring more resources than the dollar coin; therefore, it would cost more to produce.

Generally, the federal debt is reduced by increasing revenues over expenditures. In 1986, government revenues totaled $827.4 billion and expenditures totaled $1,032.0 billion. Also in 1986, the U.S. Mint deposited $392 million into the general fund of the U.S. Treasury, from a production of approximately 12.6 billion coins. Seigniorage represented only five hundredths of a percent of total government revenues and as evident, resulted in having a small impact on the national debt. The major portion of revenues is generated from taxes.

Federal Reserve notes are printed by the Bureau of Engraving and Printing, which is also an agency of the Department of the Treasury. The notes are sold to the Federal Reserve at the cost of manufacture, not at face value. There is no seigniorage or profit on issuing paper currency from the Bureau of Engraving and Printing to the Federal Reserve.

We are, therefore, forwarding your letter to the Federal Reserve for more definitive information regarding their operations.

We trust this information will be helpful.

Sincerely,

Donna Pope
Director of the Mint

cc: The Honorable Tim Johnson

RR 2 Box 70
Chatfield MN 55923
April 2, 1990

James C. Benfield
Citizens Against Government Waste
1301 Connecticut Ave. NW
Suite 400
Washington, DC 20036

Dear Mr. Benfield

I read your article in "Government Waste Watch". I found it interesting, however it left me with a few questions.

Can I take some metal to the mint and have them coin me up some 1.00 coins for the cost of 3.5 cents a coin? If not how do the coins get into circulation? Do the bills get into curculation in the same way as coins do?

You stated that government make a profit on the coins they mint don't they make a profit on the bills that they print?

If they make a nifty 30 million on lthe coins while only coining coins up to a face value of 1.00, wouldn't the government make a nifter profit on the printing of 100.00 bills at a cost of only 2.6 cents a bill? You did infer that the treasury prints the bills and bears the cost of the printing didn't you?

Why does the government need to tax us so heavy if they make so much profit coining and printing money?

why wouldn't rounding occur with checks, credit cards etc. Are not checks etc. just promises to pay later and in fact not payment in and of them selves? Doesn't there have to be a coin coined or a bill printed to cover each check etc. and pass to make final payment

Doesn't the government make (manufacture, issue) all our money? Can the private sector manufacture or issue money?

If a coin isn't worth its face value and a paper bill is not redeemable in coin what gives money its value? Just a law?

Thanking you in advance for your help, I am.

Sincerely yours,

Byron C. Dale

# he Coin Coalition


ite 304
00 Connecticut Avenue
ashington, D.C. 20036
021 659-4805
FAX (202) 331-3247




April 9, 1990

Dear Byron:

Thanks for your letter of April 2. Please excuse the choppy nature of this letter, but I'm going to answer your questions in the same order as your letter.

1. Nope, you can't take metal to the Mint to have coins made. That's one of the rights of a government. Coins and bills both enter the system through the Federal Reserve System. Member banks order coins and notes through the Fed, which in turn, order what it needs from the Mint and Bureau of Engraving and Printing.

2. The government makes a profit (seigniorage) on coins, but not on bills. Think of bills as promissory notes to give you precious metal. (That's the way it used to be, back when we had silver certificates.) The bills promised to give you silver; the coins were silver. Nothing was needed to back them. The government took the silver out of coins and abolished silver certificates, but they didn't change the accounting rules for the manufacture of coins and bills!

3. No profit is made on printing bills. The Fed pays the printing costs for the bills. The cost of coins is an expense whose funds must be appropriated by Congress. Strange, isn't it?

4. The government only makes about $500 million a year in seigniorage on quarters, dimes, nickels and pennies. Remember, this is rather like "funny money." The former chairman of the House Coinage Subcommittee correctly points out that we could pay off the national debt with a single $3 trillion coin. Just mint it and keep the $3 trillion seigniorage. If that sounds stupid, it is. That's just the way the government accounts for coins! Obviously, seigniorage is not the reason to mint a $1 coin. The true savings are in materials, because coins last 20 years, while bills last only 18 months.

5. There's no need to round checks off to the nearest nickel. Most money exists only as ink on computer print outs. Every time you use a credit card, the bank that is the card issuer creates money equal to the amount of your purchase. When you pay off your credit card balance, money is "destroyed." The size of the U.S. money supply rises and falls as debt is created and paid off. The size of our money supply is called "M-1." All economies in the western world work this way. Consult a basic book on economics for details. This gets really complicated.

6. The U.S. government makes and issues all money. However, many banks have "national banks" that issue their own money. There's no reason why private banks couldn't issue and guarantee money. As a matter of fact, Joe Cobb, an aid to Senator Steven Symms, has suggested such a proposal. You can write to Joe for more information c/o Senator Steven Symms, United States Senate, Washington, D.C. 20510.

7. What gives money its value is merely your faith in the United States government. "Money" is nothing more than articles of faith. My economics professor used to call money."ceremonially blessed dirty rags and mud pies." The funny thing is, he's right. Kind of scary, isn't it? The answer your more likely to get in an economics book is that money is "a promise to pay" with future goods and services. The balance of trade deficit you read so much about is a promise of the U.S. citizens to repay our foreign debtors with goods and services. We've got a lot of work to do!

Thanks again for your letter.

Sincerely,

Jim Benfield

Jim Benfield

65 60 Minutes is doing a story on #1 coin in 3 or 4 weeks.

DEPARTMENT OF THE TREASURY
WASHINGTON

APR 16 1990

Dear Mr. Dale:

This is in response to your letter of April 2 in which you raised several questions.

Generally speaking, large purchases are made by transfer of bank credits, not by currency payments. I believe that this general rule applies to purchases in the United States by foreign entities.

Most foreign countries have central banks which issue their currencies. I do not have enough information to be able to respond to your question about the characteristics of the Japanese yen and the German mark. I suggest that you write to their embassies here in Washington for a response to this particular question.

There is no seigniorage on Federal Reserve notes. The commercial banks which receive them from the Federal Reserve Banks pay for the notes, dollar for dollar, by drawing down their reserve accounts with the Federal Reserve Bank in their region.

The Federal Reserve Banks pay the Bureau of Engraving and Printing for the cost of printing the notes. When the Federal Reserve Banks receive the notes from the Bureau, they record both an asset and a liability, because the notes are liabilities of the Federal Reserve System (12 U.S.C. 412). The Federal Reserve Banks do not derive any profit from the transaction.

Although the notes are recorded as an asset, the Federal Reserve Banks do not have the power to spend them. The Federal Reserve Banks can use the notes only by providing them to commercial banks which are members of the Federal Reserve System in exchange for a reduction of the member banks' accounts with the System. On the other hand, the liability must be provided for. As noted above, the Federal Reserve Banks are required to hold collateral equal in value to the Federal Reserve notes which the Banks receive (12 U.S.C. 412).

It costs the Bureau of Engraving and Printing a little more than 2 cents to make a Federal Reserve note, whether the note is for $1, $5 or $10.

I hope that this information is useful to you.

Sincerely,

Russell L. Munk

Russell L. Munk
Assistant General Counsel
(International Affairs)

Mr. Byron C. Dale
RR2 Box 70
Chatfield, MN 55923

# ıe Coin Coalition

304
Connecticut Avenue
ington D.C. 20036
659-4805
(202) 331-3247



Purpose: To encourage introduction of a well-designed $1 coin and, by necessity, phasing out the $1 bill (H.R. 1068 and S. 814). Support rounding of final cash transactions to nearest nickel (H.R. 3761), thus eliminating the need for the penny.

Beneficiaries: The American taxpayer would save over $120 million annually if a coin replaced the dollar bill because coins last approximately 20 years; dollar bills only 17 months on average. A coin costs 3.5 cents to make; a dollar bill 2.6 cents (1987, Treas. Dept.).

Adding a dollar coin and $2 bill and removing the penny and dollar bill would reduce by about 40% the total number of coins and bills needed for daily transactions, saving consumers and retailers a lot of time at the cash register.

Without a dollar coin, more mass transit systems will be forced to follow the examples of Cleveland, Washington and Chicago, which spent $5 million, $8.7 million and $15 million respectively to refit buses with new fare machines. Chicago Transit Authority would save $2 million annually, as coins are easier to count than paper bills.

The visually handicapped would be able to make small purchases without fear of accidentally spending a large bill or of being cheated when receiving change.

Foreign examples: After studying the U.S. experience with the Anthony dollar, ten western counties have introduced high-denomination coins, and in every case have phased out the bill of the same value.

Major Countries' Coinage (by descending U.S. dollar equivalent)

| | | |
|---|---|---|
| Spain | 500*/200-peseta | $4.61/$1.85 |
| Japan | 500*/100-yen | $3.44/$0.69 |
| Switzerland | 5/2 Swiss francs | $3.36/$1.34 |
| Germany | 5/2 Deutsche Mark | $3.00/$1.20 |
| Netherlands | 5*/2.5-guilder | $2.66/$1.33 |
| Mexico | 5000-peso | $1.84 |
| United Kingdom | 1-pound* | $1.69 |
| Australia | 2-dollar*/1-dollar | $1.51/$0.75 |
| France | 10/5-franc | $1.76/$0.88 |
| Norway | 10*/5-krone | $1.55/$0.77 |
| Denmark | 10-krone | $1.55 |
| Finland | 5-markka | $1.27 |
| Canada | 1-dollar* | $0.84 |
| Sweden | 5-kroner* | $0.82 |
| Singapore | 1-dollar* | $0.55 |
| Italy | 500-lira* | $0.43 |
| United States | quarter dollar | $0.25 |

*issued since 1980 (exchange rates as of 2/8/90)

Design: A new $1 coin should 1) have the same dimensions as the Anthony dollar, 2) have smooth edges, and 3) be gold colored. Changing dimensions would require retrofitting machines designed to accept the Anthony dollar with new coin acceptors. The Canadian dollar coin introduced July 1, 1987 is an excellent prototype. Canada stopped issuing $1 bills on June 30, 1989, and the transition to the $1 coin was completed in January, 1990.

Report No. 83-125 E

# MONEY AND NEAR-MONIES: A PRIMER

by
John B. Henderson
Senior Specialist in Price Economics

June 7, 1983

financial system is permitted to create. Within that limit, it is the private banking institutions that are overwhelmingly the creators of money.

Money is created when loans are issued and debts incurred; money is extinguished when loans are repaid. A loan from a bank creates a deposit which the borrower may draw upon for the payment of obligations; the payee is the new holder of the new money. Some existing money in circulation must be acquired by the borrower to repay the capital of the loan; when that is returned to the bank it is withdrawn from circulation.

There are of course many refinements in the process of money creation. For example, Federal Reserve open market operations affect the creation of money. If the Federal Reserve open market account purchases U.S. Treasury bills, which aren't money, from a bank as a "dealer", it pays by crediting the account of the seller at a Federal Reserve Bank; this is not instantly money, but new reserves which permit the commercial banking system to make more loans and create more money. (Identical results follow from the purchase of bills from a non-bank dealer who deposits his payment with a commercial bank.)

Another example is provided by the Federal Reserve role as lender of last resort. This is activated at the discount window, where depository financial institutions can take the initiative of borrowing reserves in order to fund shortfalls in their cash positions from any cause, including profitable lending. In that sense, the limit on money creation by the Federal Reserve is subject to the possibility that private institutions will cause the short-term limit to be exceeded; but this does not diminish the effect of the Fed's control to any substantial degree over longer periods.

On a minor scale, even households can create money, according to some definitions. The holder of a widely usable credit card always has a credit limit on its use; but when the holder uses the card, he or she creates money. That is to say, a contract of purchase is accepted by the seller