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The President's Coinage Message

President Johnson sent a message to Congress June 3 proposing changes in the Nation's subsidiary silver coinage. Adoption of these proposals would involve the replacement of existing silver coins of substantial intrinsic value, which have been used in the United States for 173 years, with coins of virtually no intrinsic value. Early congressional approval of the proposals, perhaps with minor modifications, seems probable.

The President recommended that new dimes and quarters be made of copper clad with the same copper-nickel alloy now used for making five-cent pieces; the use of silver for minting dimes and quarters would be discontinued. He proposed that new half dollars be made with a copper core alloyed with 21 percent silver and clad with an alloy of 80 percent silver and 20 percent copper. The silver content of such coins would be 40 percent, a substantial reduction from the 90-percent silver content of existing half dollars. No change in the penny or the nickel was proposed, and the minting of silver dollars would be suspended indefinitely.

Minting of present subsidiary silver coins would continue until sometime next year. Such minting would be ended after enough new coins had been made to be introduced into circulation. Production of new half dollars would be postponed until a large quantity of silverless dimes and quarters had been minted and made available.

The President cited the findings of the long-awaited *Treasury Staff Silver and Coinage Study*, also made public June 3, as justification for his recommendations for changing the Nation's coinage. That study pointed out that consumption of silver (even excluding that used for U.S. coinage) has exceeded world output in recent years, that demand for silver would continue to exceed new production, and that the Treasury's stockpile of the metal was dwindling rapidly. These facts were reported in a discussion of the silver situation published a year ago in the *Investment Bulletin* of American Institute Counselors, Incorporated.*

The price of silver has been prevented from exceeding $1.29 per ounce since mid-1963 only by sales from the Treasury stock. The volume of such sales during 1964 was about 140 million ounces. Continuation of sales at this rate during 1965 together with the expected use of 300 million ounces for coinage this year would reduce the Treasury silver stock to about 760 million ounces at the end of the year. If Treasury sales of silver continue after this year at the recent rate, and if coinage of the new half dollars consumes a projected 15 million ounces a year, the Treasury stock would be reduced to the Administration's suggested minimum strategic reserve of 165 million ounces in less than 4 years.

As long as silver can be obtained from the Treasury at $1.29 per ounce the incentive for greater production of the metal that a higher price would provide will be lacking. Consequently, the discrepancy between the supply of and demand for silver probably will increase, with the result that the rate of purchases from the Treasury will increase. Moreover, users of silver and others who expect the price of silver to increase probably will accumulate the metal. Thus, the Treasury silver stock probably will be depleted more rapidly than the foregoing projection indicates.

The President expressed the belief that, after the use of large quantities of silver for coinage had been discontinued, the Treasury stock would be adequate to meet any foreseeable requirements for an indefinite period. He said that the Treasury would continue to redeem silver certificates at $1.29 per ounce of the metal. "Thus," he asserted, "we can assure that no incentive will be created for hoarding our present coins in anticipation of a higher price for their silver content."

That assertion, which is at variance with the facts presented by the President himself, apparently was designed to discourage hoarding of existing silver coins. Nevertheless, when the Treasury has no silver left for "pegging" the price of the metal, its price probably will increase. When the price exceeds $1.38 per ounce, melting existing subsidiary silver coins will become profitable.

The Administration has requested standby authority to forbid melting and export, but not hoarding, of coins. Whether or not this threat of further control of citizens' property will prevent such hoarding cannot be foreseen. Presumably, citizens who anticipate an increase in the price of silver in a few years will not hesitate to accumulate existing silver coins for future sale at a premium. Such a practice would be within the contemplated law.

Even without anticipation of an increase in the price of silver, the proposed change in the Nation's coinage presumably will result in the operation of Gresham's law. That law, which describes a phenomonon that has been observed for many centuries before and after it was formulated by Sir Thomas Gresham in the 16th century, states that when two coins are equal in debt-paying value but unequal in intrinsic value, the one of lesser intrinsic value tends to remain in circulation and the other tends to be hoarded.

Widespread hoarding of subsidiary silver coins began in 1961 after an executive order prohibited the holding of gold abroad by U.S. citizens. Silver dollars disappeared

*"Silver—Metal or Money?" in *Investment Bulletin* for June 15, 1964. The investment aspects of the silver situation will be discussed in the next issue of the *Investment Bulletin*, to be published June 21, 1965. Copies of that bulletin will be sent by American Institute Counselors, Incorporated, Great Barrington, Masachusetts, on request.

from circulation early in 1964, and at the end of May 1965 an estimated $700 million of other silver coins, or nearly one-third of the $2,300 million of such coins then outside the Treasury and banks, had been withdrawn from circulation by collectors and hoarders. Now that the public is aware of the impending substitution of coins of practically no intrinsic value, hoarding of existing silver coins probably will accelerate. We should not be surprised if the remainder of such coins now in use and those newly issued by banks disappear rapidly.

That development would result in a severe shortage of coins for making exchanges at the retail level. Such a shortage would continue until the new coins could be produced in sufficient quantity or until some expedient such as the issue of paper currency in fractional denominations were adopted. The Treasury has estimated that at the end of this year 7.8 billion dimes, 3.3 billion quarters, and 1.2 billion half dollars will be "in circulation" (more accurately, outside the Treasury and banks). Nearly one-third of these 12.3 billion coins apparently are out of circulation already. At the rates projected for the minting of new coins (3.5 billion pieces during the first year and 7 billion during the second), nearly 2 years would be required to replace the silver coins now in use.

United States coinage long has been affected by uneconomic, politically motivated legislation. The recent coinage proposals provide for continuing Government interference in the market for silver by requesting authorization for the Treasury to purchase silver at not less than $1.25 per ounce.

The apparent necessity for adopting a coinage of practically no intrinsic value is attributable in part to the effects of interfering with the market for silver. The President said that "silver is becoming too scarce for continued large-scale use in coins," and he asserted that a worldwide shortage of the metal is forcing abandonment of its use for that purpose. He did not consider the question, Why has world output of silver been substantially less than consumption in recent years?

Demand for silver has increased in recent years as a result of greater use of the metal by the electronics industry and new applications in other industries. Such increased demand ordinarily would result in price increases that would stimulate greater production. The price of silver did increase from 71 cents per ounce in 1946 to about 91 cents per ounce in 1955, the price at which the Treasury was required by law to sell the metal to domestic users. However, during the following 6 years Treasury sales of silver resulted in a price ceiling of 91 cents per ounce for it. Such sales were suspended between late 1961 and mid-1963, when the redemption of silver certificates at the rate of $1.293 per ounce of silver resulted in another price ceiling for the metal. These arbitrary ceilings interfered with the operation of the price mechanism by preventing the price of silver from rising to a level that would have stimulated production.

Another significant factor that has aggravated the disparity between production and consumption of silver has been the widespread hoarding of subsidiary silver coins that began in 1961. The Treasury attempted to alleviate the resulting coin shortage by greatly increasing the minting of such coins, thereby increasing the consumption of silver for that purpose. Evidently, many citizens who had become alarmed by the continuing unsound policies of monetary and Government authorities sought to protect themselves against further depreciation of the monetary unit by holding the only "hard money" that remained available to them.

Thus, a subsidiary coinage of substantial intrinsic value and the freedom of citizens to hoard that coinage as a store of value seems to have become the "Achilles heel" of the "easy money" and "spend-for-prosperity" policies of the past three decades. Instead of abandoning such policies, the Administration has chosen to remove another impediment to their continuation and to take another step toward a monetary unit whose exchange value would be decreed by the Government.

The President asserted that "we have no choice but to eliminate silver, for the most part, from our subsidiary coinage." An alternative solution is available, but it apparently is unacceptable to the Administration. That solution would require the abandonment of unsound monetary and fiscal policies, the return to sound banking practices, and the gradual removal of inflationary purchasing media from use. Such action would tend to reduce the price of silver and to induce citizens to return hoarded silver coins to circulation.

A possibility that should not be disregarded is a severe recession of business activity accompanied by a marked involuntary deflation beyond the control of monetary and Government authorities. Such a development would result in a reduced demand for and price of silver and an appreciation in the value of the monetary unit that might make abandonment of silver coinage unnecessary.

The President said that "the long tradition of our silver coinage is one of the many marks of the extraordinary stability of our political and economic system." That the abandonment of the 173-year tradition now seems to be necessary is a striking commentary on the instability that has resulted from the economic policies of recent decades. Although the significance of this fact apparently is not understood by the President, perhaps it will be by an increasing number of U.S. citizens.

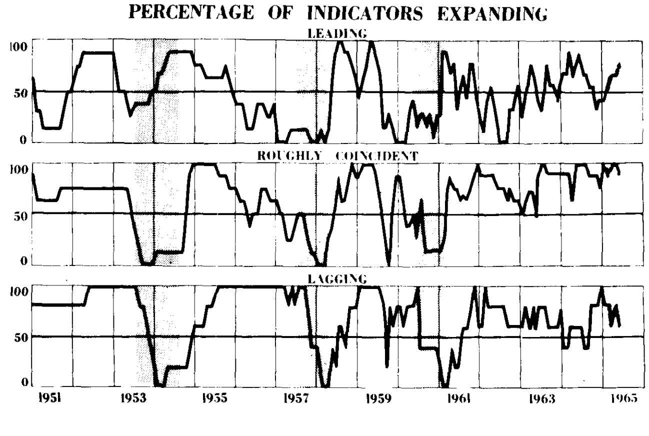
What the Indicators Say

Percentages of the three groups of indicators expanding are plotted on the accompanying chart, with periods of cyclical contractions as determined by the National Bureau of Economic Research indicated by shaded areas.

Our appraisals of the leading indicators remained substantially unchanged from those last reported, when 78 percent of the primary series were expanding. Only two primary leaders apparently were not expanding through April: the number of houses started, which has been contracting for more than a year, and the failure liabilities series, the trend of which remains indeterminate.

The generally favorable forecast afforded by the leading

PERCENTAGE OF INDICATORS EXPANDING



group average, however, is qualified by doubts that the three employment series in that group are continuing to expand. Those series and the two employment series in the coincident group decreased markedly in April, as did the sensitive series of overtime hours worked (not a primary indicator). These decreases in all key employment series may have reflected March cyclical peaks for the three leaders, in which event the group average would become unfavorable. Another leading indicator, common stock prices, also may have passed its peak. Although the average of such prices continued to increase through May, marked decreases in common stock prices in late May and early June suggest that a downward trend may have begun.

Among the coincident indicators, 88 percent of the group apparently still were expanding cyclically through May. Decreases in employment and the inverted unemployment rate did not warrant reappraisals of their respective cyclical trends. The trend of retail sales was indeterminate after decreases in that series during March and April.

Sixty percent of the lagging indicators continued to expand as consumer installment debt and manufacturers' inventories increased further and as official estimates of plant and equipment expenditures during the first half of the year were revised upward.

As late as March, the leading indicators continued to forecast further expansion of business activity, but there is reason to suspect that, when the June data are available, we shall find that a majority of the leaders have begun cyclical contractions.

SUPPLY

Industrial Production

Production of steel, automobiles, electric power, and lumber (1) in the 1- and 4-week periods ended on the indicated dates in the current year and (2) in the corresponding periods of earlier years was as follows:

Steel	*1929*	*1932*	*1957*	*1961*	*1964*	*1965*
Ingots—million tons						
1 week: June 5	1.31	0.32	2.24	2.05	2.44	2.75
4 weeks: June 5	5.30	1.43	8.96	8.16	9.91	10.84
Automobiles						
Vehicles—thousands*						
1 week June 5	125	50	163	112	227	220*p*
4 weeks: June 5	511	187	595	594	885	1,005*p*
Electric Power						
Kilowatt-hours—billions						
1 week: June 5	1.7	1.4	11.6	13.9	17.8	18.9
4 weeks: June 5	6.7	5.7	45.6	56.8	72.0	77.2
Lumber						
New York Times Index						
1 week: May 29	120	39	98	98	125	120
4 weeks: May 29	127	40	107	102	114	109

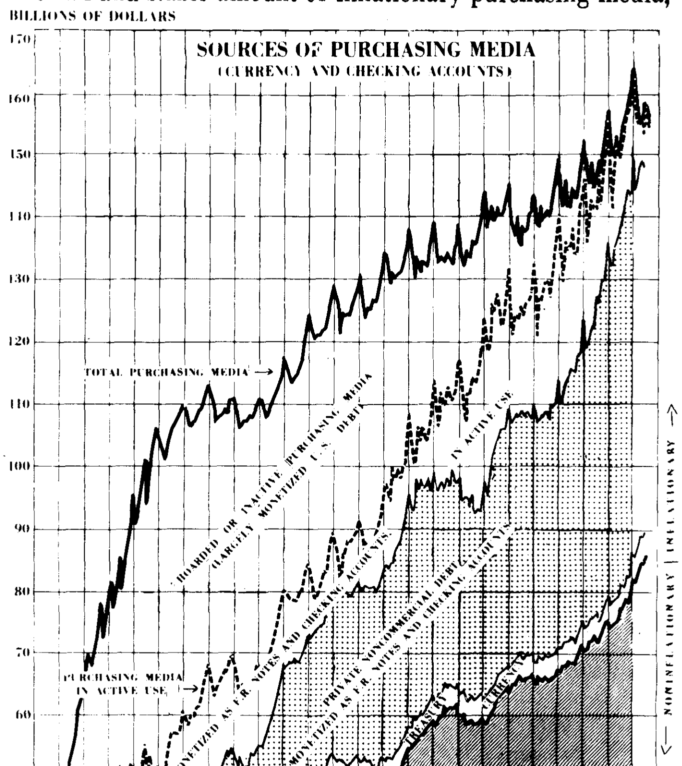
* Cars and trucks in the United States and Canada.
p Preliminary

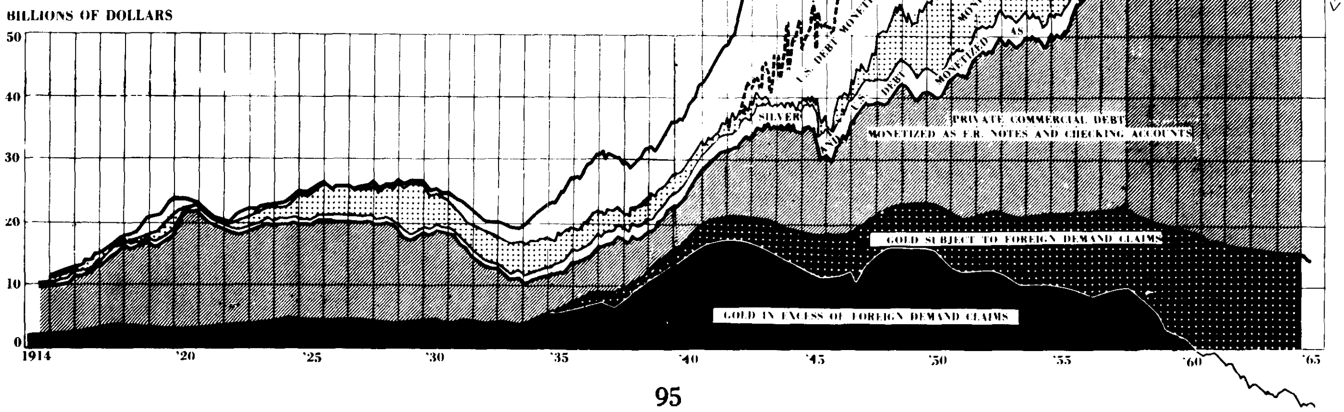
DEMAND

Purchasing Media

Total purchasing media decreased from the revised amount for April by $4.2 billion to $154.4 billion late in May. This was 3 percent more than the total at the end of May 1964. Subtraction of an estimated $1.2 billion of inactive purchasing media indicates that purchasing media actively in use at the end of May totaled $153.2 billion, about 2 percent more than the total of a year earlier.

Inflationary purchasing media decreased $5.0 billion in May to $68.7 billion, 7 percent less than the total at the end of May 1964. The greatest part of inflationary purchasing media (derived chiefly from real estate, security, and consumer loans granted by the commercial banks, and from the banks' investments in obligations of corporations and State and local governments) decreased $1.5 billion during the month to $58.8 billion, 4 percent more than that at the end of May last year. The next largest component of inflationary purchasing media, that derived from monetization of the Federal debt by the commercial banking system, decreased $3.5 billion in May to $6.0 billion and was 53 percent less than that of a year earlier. The remaining relatively small and stable amount of inflationary purchasing media,





derived from silver and from the general credit of the U.S. Government and in the form of Treasury currency, was practically unchanged in May at $3.8 billion but was 9 percent less than that at the end of May last year.

Noninflationary purchasing media, derived from gold and from commercial, industrial, and agricultural loans, increased $0.8 billion in May to $85.7 billion, 11 percent more than the total at the end of May 1964. The amount derived from commercial, industrial, and agricultural loans increased $0.9 billion during the month to $71.4 billion, 12 percent more than that at the end of May last year.

The gold stock of the U.S. Treasury was $14.3 billion at the end of May, compared with $14.4 billion at the end of April and with $15.5 billion at the end of May 1964. Gross foreign short-term claims against the U.S. gold stock were last reported at $28.3 billion at the end of March, partly offset at that time by short-term claims against foreigners of $7.1 billion. If these totals were unchanged in April and May, net foreign short-term claims would exceed the Treasury gold stock by $8.7 billion. This compares with $6.4 billion a year earlier.

The apparent necessity for adopting a coinage of virtually no intrinsic value reflects the marked debasing of the Nation's currency that has occurred during recent decades. Within a single generation the United States has retrogressed from a currency that could be exchanged freely for a specified amount of gold to a currency that in all probability soon can be exchanged for subsidiary silver coin only at a substantial discount.

Few citizens are aware of the profound implications of this long-continued currency debasement for their economic well-being and freedom. In addition to making the Nation seriously vulnerable to economic collapse, that development has confiscated hundreds of billions of dollars of individual savings. Moreover, the nearly-completed transition to a currency the value of which will be indeterminate even if ostensibly established by Government decree will afford authorities the opportunity for virtually unbridled pursuit of unsound economic policies that may seem to be politically expedient.

Hoarding of subsidiary silver coins that now remain in circulation would reduce the total of purchasing media in active use by about $1.6 billion. If such hoarding occurs, Federal Reserve authorities probably will offset its deflationary effect by open-market purchases of additional Government securities. Consequently, we expect little change in total purchasing media in use during the next few months.

Department-Store Sales

Sales of department stores reporting to the Bureau of the Census compare with those of corresponding periods a year earlier as follows:

Period	*Percent Change*
Week ended June 5	− 3
Four weeks ended June 5	+11

PRICES

Commodity Prices

	1964	*1965*	
Index	*June 7*	*June 1*	*June 7*
Spot-market, 22 commodities	253	278	278
Commodity-futures	289	274	273
Steel-scrap	$32.50	$35.17	$34.50

Note: The indexes are, respectively, those of the U.S. Bureau of Labor Statistics, Dow-Jones, and *Iron Age*. The spot-market and futures indexes are converted so that their August 1939 daily averages equal 100. The steel-scrap index is a composite price for No. 1 heavy melting scrap.

BUSINESS

Manufacturers' Orders, Sales, and Inventories

Note: All data are seasonally adjusted.

New orders received by manufacturers during April were 1.1 percent more than those received during March and nearly 8 percent more than those for April 1964. New orders for durable goods, a leading indicator of business-cycle changes, were nearly 2 percent more than those of a month earlier and almost 8 percent more than those of the corresponding month last year. New orders for nondurable goods were 0.3 percent more than those of a month earlier and nearly 8 percent more than those received during 1964.

Sales (shipments) of manufacturers in April were 0.5 percent less than those of a month earlier but almost 8 percent more than those in April 1964. Sales of durable goods were 1.5 percent less than those in March but were about 8 percent more than those in the corresponding month last year. Sales of nondurable goods were 0.6 percent more than those in March and about 7 percent more than those in April 1964.

Inventories of manufacturers at the end of April were 0.4 percent more than those of a month earlier and nearly 6 percent more than those of a year earlier. Inventories of durable goods manufacturers increased 0.6 percent during the month and were 8 percent more than those of a year earlier. Inventories of manufacturers of nondurable goods increased 0.1 percent during April to an amount 2 percent more than that of a year earlier.

The ratios of inventories to sales for manufacturers of all goods, durable goods, and nondurable goods for April compare with those for a month and a year earlier as follows:

	1964	*1965*	
	Apr.	*Mar.*	*Apr. p*
All goods	1.63	1.58	1.60
Durable goods	1.87	1.83	1.87
Nondurable goods	1.36	1.30	1.30

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Unfilled orders of manufacturers at the end of April were 1.2 percent more than those of a month earlier and 14 percent more than those at the end of April 1964. Unfilled orders for durable goods were 1.3 percent more than those of a month earlier and 14 percent more than those of a year earlier. Unfilled orders for nondurable goods, which account for only about 5 percent of the total, increased 1 percent during April and were nearly 9 percent more than those at the end of April 1964.

Manufacturers' shipments of new automobiles (which are included in new orders) and continued stockpiling of steel have contributed to the reported gains in manufacturers' new orders. Both of these influences are the result of temporary conditions in the respective industries. Termination of these influences may be followed by a curtailment of new orders in the affected industries in an effort to work off what will have become unneeded inventories.

Increases during April in both new and unfilled orders of manufacturers suggest that manufacturing activity will not decrease through the early summer, at least. However, inventory reductions probably will result in a contraction of such activity subsequently.

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