

The Cheviot Sound Money Conference

'A discussion of precious metals as money'

Essay by
Hugo Salinas Price



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- II. Minting silver without a mining industry
- III. The world is waiting for the sunrise
- IV. Bill to monetize the silver ounce in Mexico

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- I. ELEMENTS FOR MONETIZING
THE SILVER OUNCE IN BRITISH POUNDS**
- II. MINTING SILVER WITHOUT
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Hugo Salinas Price

I. Elements for monetizing the silver ounce in British Pounds

In 2001 we elaborated the text for a Congressional Bill which would establish the method for monetizing the “Libertad” silver ounce in Mexico. Today, the idea of silver money is well known among Mexicans and we believe it is only a matter of time for this Bill to be approved. It is presently awaiting a vote in the Congress.

However, this project can also be carried out in any other country; all it requires is for that country to mint its own silver ounce and follow the fundamental outline which we have proposed for the Mexican silver ounce.

* * *

The Treasury is the entity that could and should monetize the silver ounce for the UK.

For the British Treasury the monetization of a silver coin would constitute an important source of income, since all of Europe – indeed the whole world - would wish to possess this coin of supreme quality. We must underline that the emission of this coin and its sale to the public implies no risk at all nor future responsibility for the issuer. Gresham’s Law, working in reverse, guarantees this: good money never seeks to exchange itself for bad money.

Such a coin of superior quality incorporates within itself its own reserve in the form of a silver content which represents the greater part of its monetary value.

Issuing this coin does not mean that the pound ceases to be the currency of the UK. The monetized silver ounce becomes a part of currency in circulation, in parallel with paper and digital pounds.

This measure should not be regarded as a move to a “*silver standard*”.

Once the design of the silver ounce has been approved and the coin has been minted it will be given a quoted monetary value by the Treasury.

We must state at this point that the effective monetization of the silver ounce requires as an indispensable condition: that it shall not bear an engraved monetary value. We shall explain the reason for this condition, further on.

The Treasury quote will attribute a monetary value in pounds to the ounce. The quote will serve the same function which an **engraved value** gave to silver currency in former times.

This quoted monetary value will be superior to the intrinsic value; that is to say, to the value of silver in bullion form.

This margin of difference between the value of silver bullion and its quoted monetary value in coin form will cover the cost of minting and also grant the issuer a profit from seignorage. The size of the margin is optional; a modest margin is preferable to a large margin in order to avoid sporadic large increases in the monetary value of the ounce.

* * *

Let us take an example in order to illustrate the method for monetization.

On December 1st, 2010, the following prices were registered (for purposes of this exposition all prices are those registered on that day):

Spot silver: \$28.74 dollars per Troy ounce (31.1 grams)

Dollar/British Pound: 0.639

The spot price of silver in British Pounds on that day was therefore:

$\$28.74 \text{ dollars per ounce} \times 0.639 = \text{£}18.36.$

Let us add to this value, 50 pence (suggested) to cover cost of minting =

$$£18.36 + .50 = \mathbf{£18.86}$$

By way of seignorage, let us add a base percentage of 10% over the cost:

$$£18.86 \times 1.1 = \mathbf{£20.74}$$

It will be impractical for owners of these ounces to use and remember this figure £20.74 in transactions in which they might wish to use this coin. Therefore, its monetary value will be rounded up to the next higher figure which will be a multiple of 50 pence. Thus, the monetary value would be determined as **£21.00**.

The rounding up is useful because it allows a greater margin for the operations of the issuer. Small and transitory rises in the value of silver will not require a new quote. The next quote, higher than £21.00 will be £21.50.

A new quote is imperative when the price of the silver ounce, plus its cost of minting, plus a 10% profit surpasses £21.00.

In the previous example, the gross seignorage of the issuer was £2.14 (£21.00 minus £18.36 for the cost of silver), which represents a seignorage of 12.6% of the monetized price.

Let us suppose the cost of minting remains 50 pence; we can determine what price of silver will call for a new quote:

$$£21.01 = (\text{cost of silver ounce} + 50 \text{ pence for minting costs}) \times 1.1$$

Solving the equation, we see that silver bullion would have to be £18.60/oz.

As long as the price of the Troy ounce of silver bullion fluctuates between £18.36 and £18.59, there will be no need to issue a new monetary quote for the ounce: it will remain at £21.00. The additional margin provided by the rounding-up of the monetary value protects the seignorage of the issuer.

Our example shows that the method of determining a monetary value for the silver ounce is quite simple and can be easily modified according to the actual cost of minting and according to the seignorage which may be considered desirable; the multiple to be used for ‘rounding up’ is also optional.

Now we come to the most controversial point regarding this measure:

What happens when the price of silver falls?

The answer is surprisingly simple: nothing happens.

The second indispensable condition for successfully carrying out the conversion of the silver ounce into currency which will circulate in parallel with the British pound is: ***the last monetary quote given to the ounce by the issuer must not be reducible.***

The reason for this unusual condition is that ever since silver ceased to have monetary value ***according to weight***, the monetary value of all silver coins was always and everywhere a fixed value; it was a fixed value because all these silver coins bore an engraved or stamped value.

In order for the silver ounce to cease being a commodity and be currency it is indispensable that its nominal monetary value be a fixed value which cannot be reduced – just as is the condition of present British pound coins and bank notes – along with which the ounce is to circulate in parallel.

If the quote is allowed to fluctuate in value downward, according to the price of silver, then the ounce will not be currency: it will continue existing as a commodity.

Once the silver ounce becomes currency, thanks to the quote of the issuer, it ceases to be a commodity. Its monetary value, as is the case with current British pound coins and bank notes, is then independent of the material of which it is made; its monetary value must be just as constant: its quote must not be reducible

Even if silver’s price were to fall to the value of copper – and we cannot visualize a worse case – the monetized silver coin would

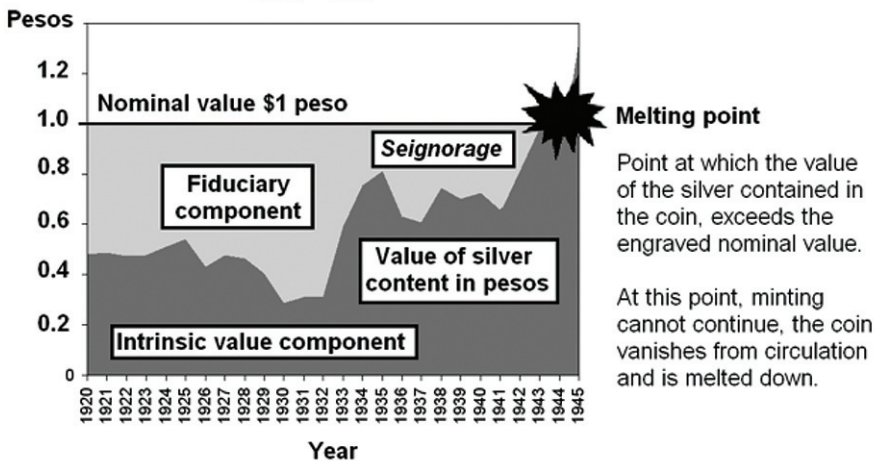
continue to be currency at whatever was the last quote. If a paper can be worth £100, surely a silver coin can represent the quote given to it by the issuer, independently of the value of the silver it contains.

Besides, even if we assume a very large fall in the price of silver, a silver coin with a monetary value in British pounds (which may be high with respect to the value of the silver in the coin) will always be preferable, in the public's regard, to a British pound banknote which has no value content at all, being as it is, only a piece of paper.

As a historic proof of what we affirm, we present a graph which shows the history of the intrinsic value of a Mexican silver coin which was known as the "Peso 0.720". This coin contained 12 grams of pure silver and as you can see in the graph, the value of silver bullion during the period from 1920 to 1945 fluctuated between 45 centavos of Mexican peso, down as far as 32 centavos in the Depression years of the 30's.

Peso .720 Fine (12 grams of pure silver)

Nominal value vs. intrinsic value
1920 - 1945



As we can see in figure above, disappearance of this coin was not caused by falls in the price of silver; it was a *rise in the price of silver* which began in 1945 which caused the disappearance: its engraved or stamped value could not be altered to reflect the higher price of silver.

This is why the silver ounce which is to be monetized must not show an engraved monetary value.

All the silver coinage that existed in the world before World War II had an engraved value. Monetary inflation was created in all monetary systems during and after the war, and new industrial uses were found for silver; together, these factors caused a rise in the world price of silver. It became uneconomic to continue minting silver coins and in one country after another they disappeared from circulation; their silver content was worth more than their engraved monetary value. The public gathered up existing coins and the greater part of the silver coinage went to refineries, since silver bullion was worth more than the monetary value of the coins to be melted, whose monetary value could not be altered.

Global monetary inflation is a phenomenon whose end is not in sight. The monetization of the silver ounce will require its constant revaluation which will be possible because it will not have an engraved monetary value. This periodic revaluation will allow the monetized silver ounce to remain in circulation *permanently*.

In passing, we should mention that at present some silver coins are being minted with engraved monetary values far below their real value. This deliberately demonetizes them because it does not permit them to be used as currency. They continue to be a commodity subject to speculation.

The same perverse motivation is apparent in the case of silver coins whose monetary value is higher than their intrinsic value. In this case, the use of these coins as currency is sabotaged by minting only very small quantities and offering them to the public as simple numismatic curiosities. The French Mint played this frivolous game recently; it issued a tiny quantity of silver coins

denominated in euros, to be sold to the public at prices far higher than their nominal value.

Therefore:

The coin must not bear an engraved nominal value in order to allow the Treasury to raise its value to reflect the increase in the international value of silver, thus ensuring that the coin will remain in circulation permanently.

The quote must not be reducible so that the quoted silver ounce may function as any other coin in circulation.

* * *

In the case of Mexico, the Bill for the Monetization of the Silver Ounce contains two additional provisos:

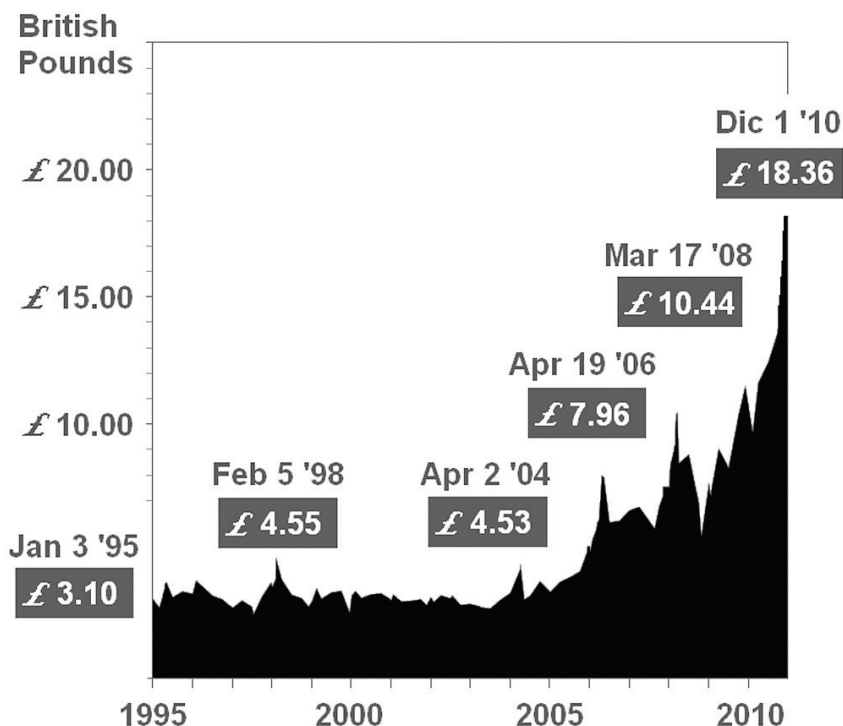
1. The issuer will observe the silver market and detect possible speculative phenomena which may appear in that market. In order to prevent temporary speculative excesses from impacting the monetary value of silver, the Bank of Mexico will have a margin of six months to verify whether a large and sudden increase in the value of silver is a market phenomenon or a speculative disorder. During this period, it may suspend a new quote. This delay will have a minimal effect upon the monetary use of the silver ounce since the population will retain these coins in the expectation of new, higher quote, in not more than six month's time.

During the period in which the Bank of Mexico may delay the issue of a new quote in order to verify that the rise in the price of silver is a market phenomenon, there may appear transitory speculative premiums on the value of the monetized silver ounce; these will disappear as soon as a new quote is issued.

2. The issuer shall respond to the demand for this coin on the part of the public, by minting coins sufficient to cover such demand. Otherwise, the market will give this coin a speculative premium, above the issuer's quote. The presence of premiums announces that the coin is losing its function as currency in exchange for a numismatic or speculative interest.

Graph 1

Silver ounce's value as commodity
*(in British Pounds in **gray**)*
1995 - 2010

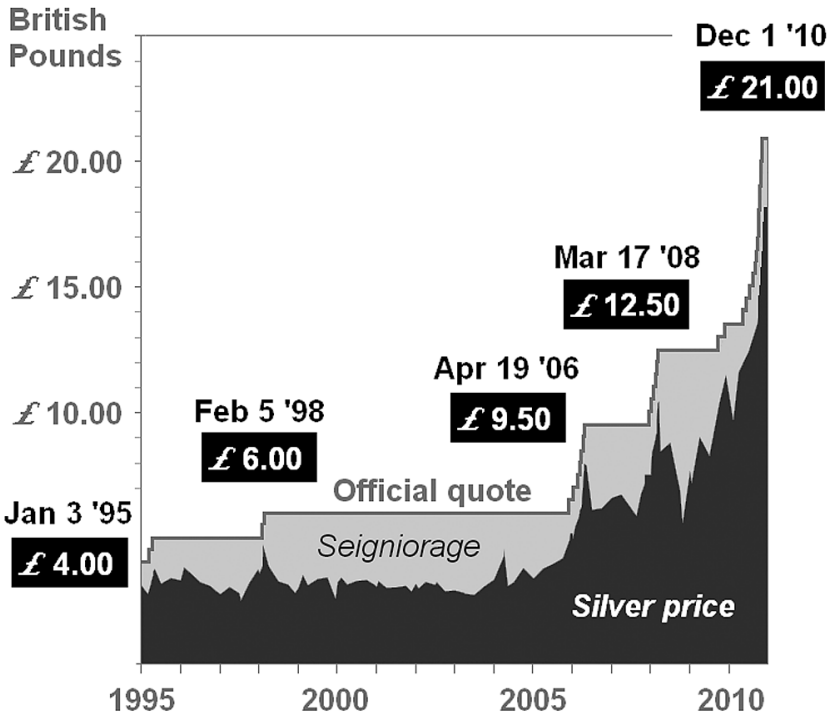


Elaborated by: Asociación Cívica Mexicana Pro Plata A.C. / Data: kitco.com

Graph 2

UK silver ounce's value if monetized in 1995
(in British Pounds in **black**)

1995 - 2010



Elaborated by: Asociación Cívica Mexicana Pro Plata A.C. / Data: kitco.com & x-rates.com

Determination of official quote:

Spot silver closing price, plus cost of minting (estimated at 50 pence), times 1.1 for (suggested) 10% seigniorage, rounded up to nearest multiple (suggested) of 50 pence.

* * *

Saving is a dynamic phenomenon. The desire to save is practically innate in the human being but the capacity to save at any given moment is limited by the nature of things. Similarly, the public wishes to save – and quite especially it will wish to save silver coins – but its capacity to save is limited at any given moment.

The issuer will recognize that a *momentary limit to savings* in silver has arrived when the public is using silver coins in daily transactions and deposits them in the banks for credit to bank accounts. The banks, who cannot effect transmissions of silver by electronic means, will perhaps find they have an excess of silver coins and return them to the issuer just as they do with British pound bank notes and coins.

This will be a signal that for the moment, the emission of silver ounces has exceeded the savings capacity of the public. The minting program may be modified to take this into account.

The issuer will retain in its vaults, the minted silver that for the moment exceeds the demands of the public, with the certainty that the public's demand will shortly present itself once again.

It will never be forced to retain minted silver permanently because Gresham's Law guarantees it: the public will always prefer to save a coin of superior quality as a part of personal and family savings.

Such are the main elements regarding the monetization of the silver ounce. Lastly, we should point out two things:

a. That a one-ounce coin might be too big a coin, given the rising price of silver. The same method of monetization could be carried out with a half-ounce or a quarter-ounce coin, which would allow more people to acquire silver coins for savings.

b. That to make the coins more durable, the content of pure silver - one ounce, half-ounce or quarter-ounce - of the selected coin should be alloyed to some degree with copper. (In the case of Mexico the coin to be monetized is one ounce of pure silver, because the population already owns a significant number of these coins.)

II. Minting silver without a silver mining industry

We have been proposing the monetization of silver, in such a manner that it will circulate permanently in parallel with fiat money.

We have reviewed our proposal from time to time – nine years is plenty of time to think – not in order to modify our proposal but to polish it.

Our latest musings on the subject of monetizing silver have to do with a question that has been put to us now and then: How may a country that has no silver mines monetize a silver coin?

Let us suppose the British Treasury decides to monetize a silver coin and grant it a monetary value in British pounds.

The British Treasury is facing hard times. The UK has a trade deficit and the idea of purchasing foreign silver which will be handed over to the public in exchange for fiat money does not appear to the Treasury as an urgent need; even if it wished to monetize silver, the Treasury simply could not afford it.

Under the “Open Mint” policy the US Treasury accepted *all* silver bullion for minting, for the account of the miners. Through 1872, all silver was potentially money. The US miners were digging up money, so to speak, and simply handing it over to the US Treasury for minting into silver dollar coins, for their own account. The newly minted silver coins belonged to the miners. This system was abandoned in 1873.

We propose a “Conditioned Mint” system of silver coinage as a route by which an Open Mint might be re-established eventually.

Under the “Conditioned Mint” system which we imagine, the British Treasury would announce its intention to purchase and mint a certain amount of bullion silver, on a first come first serve basis, at the market price prevailing on the date of purchase, for its *own account*. The sellers of silver would have to agree to receive, in payment of their silver, minted silver coins with a monetary value in British pounds equal to the price of the sale.

The system we outline has three conditions:

- a. The amount to be minted is determined, from time to time, by the Treasury.
- b. The silver is purchased by the Treasury and minted for the account of the Treasury, and not for the account of the providers of the silver.
- c. The silver purchase is paid to the sellers in monetized silver coins with a monetary value in British pounds equal to the purchase price.

The reasons for the conditions are as follows:

- a. The Treasury is essaying a new system. It will wish to be cautious. This condition allows the Treasury to try the waters with *purchases under its control*. If everything goes well, as we believe it will, the Treasury may expand its activity and decide to accept *all* silver presented to it for minting. But until the system proves itself the Treasury has the option of continuing or not continuing to purchase silver. The “Open Mint” policy is approached gradually – in our opinion, the only possible way it can be reinstated eventually.
- b. The Treasury purchases the silver bullion for its own account because there is a special form of payment involved. (See point “c”)
- c. Sellers who present their silver to the Treasury must agree to receive, in payment, *the monetary value of their bullion silver in monetized silver coins*.

* * *

Here is an example of an operation where the Treasury has announced it will purchase up to 100 tonnes of silver bullion on such and such a date, at market price. (For purposes of this example, the market price will be the closing price of silver on December 1, 2010.)

100 tonnes of silver = 3,215,074 Troy ounces x £18.36/oz = £59,028,759 purchase price.

£59,028,759 are paid to the sellers of the silver in silver coins with a monetary value equal to that amount. The quoted monetary value of the silver ounce, as determined by our suggested factors for monetization, for the silver bullion price on December 1, 2010, would be £ 21.00. (We refer to our proposed method for monetizing a silver coin, to circulate permanently in parallel with fiat money, which can be read in English in the previous section of this brochure, or at www.plata.com.mx)

If the monetized silver ounce is quoted by the Treasury at £21.00, how many ounces would be required to pay those who sold 100 tonnes of silver to the Treasury? The payment of £59,028,759 by the Treasury would be effected by delivery of 2,810,893 monetized silver coins ($59,028,759 / 21.00 = 2,810,893$ monetized silver ounces)

Under our proposal to monetize a silver coin, the monetized coins have a monetary value superior to the bullion value of the silver contained in the silver coins. An estimate of the difference, given the previous conditions, reveals that the monetary value of 100 tonnes of silver bullion would be approximately 12.6% lower than the monetary value of 100 tonnes (3,215,074) monetized silver ounce coins.

In effect, the sellers of silver to the Treasury would be losing about 12.6% of their silver in the operation. They would be obtaining the full price of their silver in British pounds, but they would receive in return only 87.4% of the silver sold. That 87.4% would take the form of monetized silver coins.

The difference of 12.6% of the purchased silver would be retained by the Treasury as its seigniorage or profit from the operation of minting the silver coins and monetizing them.

Here lies an opportunity for considerable profit for the Treasury, because the potential for expanding this activity is great. The Treasury would retain in its vaults 404,181 monetized silver ounces.

Would the sellers of silver be willing to sell their silver under these terms? We think that silver producers would be eager to accept Treasury offers to purchase silver on these terms, for the following reasons:

If the sellers sell silver to the US Treasury for minting into silver coins, they receive fiat money – in digital form – in payment. Under the system we propose, the sellers receive silver money – real money – in payment of their silver. They get full payment in British pounds, but in the form of real money. We think the alternative is quite attractive.

The sellers can deposit these monetized coins in British banks at their monetary value; the banks can offer them to a public which will be eager to obtain them in return for payments in cash or with a charge to bank accounts. The demand for the coins will be enormous.

The coins, monetized in British pounds, are immune to devaluation; they can only rise in value, together with the underlying price of silver; they cannot fall in value, as silver bullion does from time to time, and they are immune to problems of bank solvency.

In time, the increasing availability of monetized silver coins will make it possible to offer international payments with the monetized silver coins. Foreign markets will accept these coins unquestioningly; indeed they will avidly seek these coins, because, as we have said, they are immune to devaluation of the British pound, they can only rise in monetary value as silver rises in price, and they are of superior quality as money. They are real money which exists independently of any banking system, which makes them immune to crises in the British banking system, or any other banking system, for that matter.

At present, banking crises threaten to wipe out entirely, at one stroke, all money on deposit in banking systems. The great world

financial crisis shows no signs of abating; on the contrary, it is increasing in severity and a national banking default may cause a domino effect on world banking orders of magnitude worse than experienced in the 30's. Banking systems have their governments by the throat and can demand, and obtain, bailouts to be paid by the taxpayers. Silver money in permanent circulation is the only available, practicable route to begin to free governments from the *impositions demanded under duress by banking systems*.

A reform of the world's monetary system which reinstates gold as the international *numeraire* is indispensable, but as things are at present, no one has any idea how this reform might be accomplished.

The demand for the British pound, reborn as a monetized silver coin circulating alongside its bastard brother the fiat British pound, will be worldwide. Every coin minted and sent abroad – and there will be tens of millions of them - will provide the Treasury with approximately 12.6% of its value, left behind as silver in the Treasury vaults.

The monetized silver ounce, used in international payments, *achieves settlement* of international debt: payment in silver extinguishes debt. Payment in fiat money does not and cannot extinguish debt. Therefore, silver ounces will be used as Reserves by Central Banks and stored in their vaults.

The demand for the monetized British silver ounce will drastically affect the market for silver, causing the price of silver to rise to unsuspected heights. This is all well and good, and no cause for concern. The higher the value of the silver ounce, the more commerce it will be able to sustain. In a world in which the values of national and regional fiat currencies are coming under an increasing cloud of doubt, the monetized silver ounce will prove its value as an international currency.

We think that the prestige of London as a financial centre can only be enhanced by this system of “Conditioned Mint” for silver. The silver coin, monetized in British pounds, will prove to be a formidable and worthy competitor for the American dollar and the euro.

We believe that this proposal should be examined as a gradual and non-disruptive means of reintroducing real money into the world's economy. The latent desire for such money on the part of the world's population will have found a vehicle for its expression in the monetized silver ounce, and that latent desire will manifest itself through the world market for currencies. Perhaps silver can open the way for an eventual reform of the world's monetary system based on gold.

III. The world is waiting for the sunrise

Since ancient times one of the most important activities which any State exclusively reserved to itself was the minting of the nation's money.

In our age we have seen that modern banking systems have completely usurped this fundamental function of the State.

Had the banking systems of the world fulfilled this function correctly, we should not be pondering monetary matters.

The fact is that the banking systems of the world have one and all followed the same banking rule book, which they altered when the rules proved an impediment to increased profits, and they have managed to expand themselves into total bankruptcy.

Not only that, but having taken over the power of issuing money – of zero quality – they have arrogated unto themselves as if by a natural, God-given right the function of being the central promoters of growth and prosperity.

Thus have the money-lenders promoted themselves into a ruling plutocracy. We are now witnessing the inevitable downfall of these plutocracies which have not been interested in the welfare of their nations, but first, second and last in their own enrichment and power. Thus the plutocrats have bankrupted themselves out of greed and irresponsibility.

We have shown how the Treasury of the UK can have a silver coin minted, and how it can endow that coin with a monetary value.

Please notice that we are not assigning this task to the Bank of England. The Bank of England is a Central Bank, a financial institution which regulates banking in the UK.

Among other responsibilities, it is in charge of monetary policy, which means that the creation, maintenance and increase or decrease in the amount of fiat money circulating in the UK is within its authorized sphere of action.

The historic development of banking all over the world has led to the present situation, where *all* money is the exclusive preserve of banking systems and their Central Banks and where, in fact, there is only one kind of money in the world, *fiat money*.

We live in a world where the dominant paradigm is *fiat money* issued exclusively by a Central Bank and its related banking system. Humanity today knows of no other money but this!

If and when the *Treasury* of the UK, in obedience to the instructions of Parliament, proceeds to the minting of a one-ounce pure silver coin with no engraved value and issues a monetary quote for that coin, this will be a revolutionary event from the point of view of the bankers.

The prevailing paradigm of fiat money, and only fiat money, issued exclusively by the Central Bank and its related banking system will have been broken! *The State, through the Treasury, will be creating true money.*

This will be permanent money which will remain in circulation until it is so worn out that it has to be replaced, at Treasury expense, with new coinage; money that will never be at risk of disappearing due to a collapse of the banking system. Banking, the business of lending money, is a legitimate business subject to risks which all businesses must run. However, *the creation of money* is not and cannot be a legitimate function of banking: there is a conflict of interest involved in the union of the two functions. The present worldwide monetary and financial disarray is evident proof of this statement.

The rupture of a paradigm is a rare event; entrenched ideas are hard to dislodge. A fresh approach leads to new avenues of action and opens up new horizons which can resolve the total dead-end confronting the world. The system of fiat money issued by banking systems has exhausted itself and cannot offer real alternatives to progress, but only such aberrations as QE 2.

The first thing that will happen when the prevailing monetary paradigm is broken is that people will immediately begin to regard money in a different light: they will have an option, where there was previously no option at all.

Britain would no doubt receive the monetization of a silver coin most enthusiastically. The demand for the coin would be enormous.

If the bankers are allowed to have their way, there will be no monetized silver coin. They will adamantly oppose it. They will be frightened to death of the preference which the British would surely give to the silver coin. They will allege that if the silver coin becomes a reality, Britain is doomed. The bankers are prisoners of their paradigm and can think in no other terms.

No one can foresee all the consequences of introducing a silver coin into circulation in parallel with paper and digital money. Churchill once said, "In politics, experimentation is revolution." However, real silver money has been the rule in history, not the exception; thus a partial return to silver money as an option alongside paper and digital money is hardly an innovation or experimentation. In historic terms, what has been experimentation – and QE 2 is avowedly experimentation – has been global fiat money created by bankers who quite *evidently have had no notion of what they were doing and did not know or did not care what the consequences of their actions would be*. The British would experience the joy of holding real money in their hands and saving money that will surely be worth something in the years to come: money that cannot be devalued. Revolution, for the bankers who have not lived up to the trust placed in them; for the people, it heralds peace of mind and hope for a better future, not revolution.

Should not a proposition which offers something sure to be welcomed unquestioningly by hundreds of millions of individuals all over the world be worth considering, notwithstanding the objections of the bankrupt bankers? *The deep-seated dread on the part of the bankers regarding the latent preference for silver (and gold) on the part of the population reveals a fundamental social instability which will have to be addressed at some point.*

Politics implies tensions between sets of ideas. At some times, ideas that further social progress, prosperity and good husbandry are paramount; at other times, the prevailing ideas impede prosperity, breed apathy and promote profligacy.

There is now a potential tension between two conflicting ideas: the idea of the Welfare State, which is tottering on to its eventual collapse, and the idea of taking one's welfare back into one's own hands, which at present revolves around an unexpressed mute desire for savings of real, tangible money such as monetized silver. The monetization of a silver coin would provide a channel for that potential tension and create an enormous tide of savings in silver coins.

We believe that the undoubted desire of all peoples of the West - and of the East, as well - is to enjoy real money as the foundation of their economic efforts, and that this desire has been unexpressed and mute because no one has proposed a means of satisfying it. Silver money, which has ever been the money of the people, can become a reality that comes to life *in parallel* with the prevailing fiat money. Its further development and growth in importance can be only dimly sketched, but it comes to life pregnant with possibilities.

The creation of a silver coin with a stable monetary value, which can remain in permanent circulation in parallel with paper and digital money, would finally close the circuit that turns a worldwide desire into an actuality. The surge into silver money would be enormous. Should we fear what the people desire, or should we understand that desire and its justification, and open the way for it to express itself?

We also believe that the monetization of a silver coin by the method we have outlined - its various details are suggested but can be altered to suit - can become the irresistible objective of a political party that wishes to come to power; there is a silent desire for real money on the part of all people of the world and - the world is waiting for the sunrise!

IV. Bill to monetize the silver ounce in Mexico

BILL OF DEPUTIES AND SENATORS FROM SEVERAL PARLIAMENTARY GROUPS CONTAINING THE EXECUTIVE ORDER DRAFT WHEREBY ARTICLE 2 OF THE UNITED MEXICAN STATES MONETARY LAW IS MODIFIED IN ORDER TO INSTITUTIONALIZE THE SILVER CURRENCY WITHIN CURRENCY IN CIRCULATION.

CHAIRMAN OF THE BOARD OF GOVERNORS OF THE LX LEGISLATURE CHAMBER OF DEPUTIES.-

The undersigned, members of the LX Legislature of the Congress of the Union, on the basis of the provisions of Articles 71, Subsection II, of the United Mexican States Political Constitution; 55, Subsection II, 62 and 63, of the Regulations for the Internal Government of the United Mexican States General congress, hereby submit to the consideration of this Honorable Meeting this Bill to add, under paragraph d), Article 2 of the United Mexican States Monetary Law, according to the following:

STATEMENT OF LEGISLATIVE INTENT

I. Premises

Since September 2008, the whole world is aware of a global systemic crisis characterized by the US financial system shock and its extension to the rest of the world.

In a short period, for more than 50% of the nations this crisis has turned into a deep recession and it will result in a great depression of incalculable dimensions in 2009¹.

We are dealing with the first worldwide great depression, if we consider that the Great Depression in the 30s arose mainly in Europe and the United States. And its extension will be much greater if we compare the indicators previous to both crises.

¹ IMF, 12/23/2008.

In Mexico, one of the countries with the highest links to the US Dollar, the recession has translated into squeeze, tightening of credit, asset erosion, loss of a significant number of investments, sales downfall, deceleration of manufacturing and service sectors, bankruptcy of hundreds of businesses and loss of thousands of jobs.

For families, price inflation, fading of savings and loss of purchasing power are causing a distressing condition of tightness and sense of unease thus hurting mood and interpersonal relationships.

Furthermore, millions of Mexican citizens who work in the US have already begun to return, with the subsequent drop in remittances sent by these workers to their families. On the other hand, tens of billions of Mexican Pesos have disappeared from the pension funds and accordingly, as per the OECD, workers with an average remuneration shall receive only 36% of their last salary as pension –the lowest figure within the countries comprising this Organization. These two factors mean a serious threat to the social stability.²

To this financial crisis we must add the worldwide food crisis that, according to the Inter-American Development Bank, IDB, will mean that about 7.5 millions of Mexicans shall be in extreme poverty. Summing up, the BID states that poor in Mexico will increase from 20.6% to 27.5% of total population. From these, 30 million will be living in extreme poverty.³

The Economic Commission for Latin America and the Caribbean, ECLAC, states that, in 2009, Mexico will be the country with the lowest economic growth throughout Latin America, with the growth of its GDP below zero.⁴

Sadly, in face of such a financial crisis and global economic recession, central banks and governments have reacted by injecting more liquidity and credit to the system, which implies strengthening the reasons that gave rise to the crisis. This in turn entails more weaknesses and risks for the whole system, unfairly increasing debt levels that will affect the population in the future.

²OECD Study, February 12, 2009.

³IADB, August 2008 Report.

⁴ECLAC, December 17, 2008 Report.

Those “rescues” and emergency plans may extend the financial system life for a few months, but in the long run, will cause a much more dramatic and painful collapse.

In addition, when trillions of Dollars for the rescue begin to flow (presently withheld by the financial institutions), a huge inflation will appear that will affect population. Conditions for Mexican home economics will be really worse, and governments will have to face worrying social disturbances.

Warnings of experts of the European Laboratory of Political Anticipation (LEAP) are particularly eloquent in the sense that, undoubtedly, the US bankruptcy will strike during the 2009 summer, since it will be impossible for this country to pay its creditors. This shall lead to a payment suspension with the subsequent collapse of Dollar and explosion of the bubble of the Treasury bonds.⁵

This bankruptcy situation, as experts say, “will have very negative consequences for the set of holders of assets in US Dollars”, and will have catastrophic social effects that these experts rate as “brutal shock”. They explicitly point out at Mexico as one of the countries that will be most affected due to the close economic dependence on the US.

Origin of this financial problem is that as of August 1971, true money –backed up by precious metal– was replaced by fictitious money, in such a way that now there are no limits in the issuance of money –paper and computer digits.

A deep analysis of this situation will disclose that market distrust and turmoil, social unrest and discouragement, huge financial, and suffocating inflation that hurts people, all of this derives from the lack of quality of money, and in the subsequent probability to create fiat money and credit out of nothing.

Now, we see that this irresponsible expansion of credit and the exaggerated creation of virtual money are approaching to their unavoidable end, for which the international monetary and financial system is threatening to get into a huge implosion.

⁵LEAP, October and December Bulletins.

Due to all the foregoing, and in the understanding that the present situation requires creative and urgent responses, we consider vital and advisable to offer the population a currency with a true value, which does not devalue, and that in turn gives trust and confirms our national unity. This is mainly pressing upon popular classes, which have no efficient alternatives to protect themselves.

This measure is Mexico's response to the international financial crisis. While the main countries are discussing about implementing measures that require considerable amounts of money and that will continue worsening the global situation, Mexico is proposing a simple response with proven effectiveness: give the population a currency with intrinsic value that shall not devalue and that shall irresistibly foster savings.

If this crisis is the result of an excessive expansion of debt and consumption, disregarding savings and restricted and sound credit, the solution lies on promoting savings to start curing the economy. Thus, it is fundamental to promote savings, the only absolute way to achieve a sound economy worldwide.

In this sense, the silver currency converted into money will have an irresistible attraction, spontaneously, without the need of any promotion. People will prefer to save in these currencies and get sound credits using such currency as collateral. Savings in silver will protect families against devaluations of the Mexican currency and against devaluations of the US Dollar –currency on which the value of our currency depends.

II. Historical Background

During the Monetary and Financial Conference of Bretton Woods, held on July 1944, which agreed to use the Dollar –backed up by gold– as the international reserve currency, the Mexican Government submitted a request so that silver may also be used as money. This motion was approved by majority, for which Mexico has been able to continue using silver as money up to now, even though in an erroneous and marginal way.

Since inception of Banco de México in 1925, and up to now, constant efforts have been made to introduce silver coins in circulation, and silver currency has been present in almost all monetary amendments and in all minting programs, since the famous “Mexican Peso 0.720” (issued from 1920 to 1945) up to the “Commemorative Mexican Coin of the States” (issued from 2004 to 2008).

To use silver in our currency, no attempts or efforts of our legislators and authorities have been missing. However, all these attempts have been vain because, sooner or later, these currencies reached their “melting point”, that is, when the intrinsic value of the silver contained in such currency exceeds the nominal value stamped.

In the past, the invariable result of issuances of silver coins with a stamped nominal value has been that the seignorage begins to be negative as the metal price exceeds the currency nominal value, or the Mexican currency undergoes a slippage. This has the same effect. Therefore, Banco de México has necessarily had to stop minting thereof, even against the desire of the population, who of course prefers silver.

As a transitory but erroneous solution, Banco de México has increasingly included less silver in coins, considering that in this way the silver currency may continue in circulation. However, the result has always been the same: silver is worth again more than the nominal value stamped in the coin, and destination thereof was melting or numismatic collections.

The most well known case is the Pure Mexican Silver 0.720, which circulated in Mexico for 25 years and had 12 grams of pure silver.

During the period these coins were minted, -458 million in total, from 1920 to 1945 – price of silver fluctuated outstandingly, with its transitory drops causing no problems (when Banco de México was established in 1925, price of silver was \$69.1 cents of Dollar, and it dropped up to \$25.4 cents of Dollar, in 1932).

However, nobody ever returned to Banco de México one single Peso 0.720 during these 25 years, as a result of a drop in the value of silver contained therein, and this coin continued circulating.

The problem was a rise in the price of the metal, which rose from \$0.45 to \$0.71 Dollars per ounce in 1945. The currency had to go out from circulation, as the value of silver it contained exceeded the value of \$1 Peso stamped and its minting resulted unprofitable.

In an attempt to cure the limiting factor that leads silver coins to their melting point, the Executive Branch sent, in 1979, a Bill that for the first time introduced silver coins without a stamped nominal value into circulation. This Amendment set forth that these coins would be legal currency, provision still in force up to date.

As a result of this Amendment, the silver ounce “Libertad” was created, which has been minted since 1982 up to now.

Thanks to this first provision, these coins have never reached their melting point: notwithstanding devaluations, Banco de México has minted these coins uninterruptedly since then; such coins have not been melted, and continue within the population’s savings. However, the second purpose (to be used as means of payment) was not fulfilled, as the lack of a stable nominal circulation value –which in no currency may be reduced– caused losses to savers and Banco de México.

III. Miscellaneous

The technical purpose of this Bill is to correct this legislative deficiency so that the silver ounce “Libertad” may be fully incorporated to the Mexican monetary system and it may be used by the population as a sound savings instrument and, in turn, as regular means of payment.

The silver currency, to become true money, and to enter into circulation permanently, has to be conferred a nominal circulation value that may move upwards if price of silver raises, but in turn that may keep its last nominal value if price of silver drops.

Both, notes and coins we usually use have a stamped or engraved nominal value, and this value may never be decreased notwithstanding a drop in the international price of material coins are made of. For this reason, as this value is stamped in the coin, any legal provision establishing that their nominal value shall not be decreased, would be redundant. However, in the case of a silver coin without a stamped nominal value that shall become money –subject matter of the 1979 Amendment– an express legislation is needed so that such condition, implicit in all notes and bills, becomes explicit in the case of the silver ounce “Libertad”. Without this irreducible nominal value, it is impossible to convert the silver currency into money, and it will continue to be just a commodity forever.

The social purpose of this Bill is to create coverage for popular savings, offering the population an instrument with no devaluation, which is not impacted by inflation, that is not subject to errors due to monetary policies or bank collapses.

Mexico competes with Peru as the first silver producer worldwide. Unfortunately, according to the Mexican Mining Chamber, about 80% of silver goes out from the country, and is auctioned in the New York exchange at ridiculous prices. For a decade, the international demand has not been reflected in futures contracts. This manipulation of markets causes an undervaluation of the Mexican silver, preventing progress of the mining silver industry, or even closing of mines despite of the certainty that the mineral is there.

A direct effect of this Bill is that silver shall be granted an added value, creating a new market and achieving that silver will remain in Mexico for the benefit of Mexicans.

This Bill will have a favorable impact in the mining industry and will result in the creation of jobs. From the 32 Mexican States, 24 are mining States. The Mexican Mining Chamber considers that if this Bill to monetize silver is approved, new mines will be activated in the short term, mines which may create about 2,500 new jobs annually, and the Chamber estimates that proven and probable silver reserves, close to 1,800 million ounces, could withstand popular demand.

For the foregoing, the Conferencia Nacional de Gobernadores (CONAGO, National Conference of Governors) has unanimously stated twice in favor of introducing the silver currency into circulation, to foster popular savings and promote regional development.

Apart from fostering savings, the banking system and the public may be benefited from the use of silver coins deposited under custody as collateral to grant low-income interest credits, thus fostering the development of multiple productive projects. Such credits are sounder than any credit created out of nothing, since it is backed up in previous savings.

As regards fluctuations in value of silver, transitory drops in the international price of silver would not cause losses for Banco de México nor for the holders of ounces, precisely because the nominal value can't be reduced, just as from 1920 to 1945 no holder of the Mexican Peso 0.720 or Banco de México suffered any losses and nobody returned any coin due to occasional drops in the price of the metal. On the other hand, rises in the nominal value imply no subsidy by the Treasury, since these depend on the market price rises, and is the saver who is paying, when purchasing the ounces, the price of the metal, of the minting and of the seignorage.

It is worth mentioning that this measure, far from affecting management of the monetary policy, helps to fight against inflation following a path opposite to the monetary restriction which, by requiring rises in the interest rates, affects the productive system. By introducing silver coins to circulation, the same effect of containing inflation is achieved, but without damaging production.

Lastly, it is highlighted that an increase of money in circulation associated to this legislation is almost inexistent, specifically 0.23% of M1 corresponding to 22 million ounces already held by the public, and 0.08% corresponding to new coins to be minted annually. In contrast, an annual increase of M1 corresponding to fiat Pesos is close to 12% annual, which does cause inflation, provoking a high damage to population.

It is worth mentioning that the permanent positive seignorage will be a continuous source of income for several social programs. Today, Banco de México obtains no profit because the Libertad ounces are sold as a commodity, and profits from their marketing are taken by private banks, which add a fee to the sale and make a discount in repurchase.

By approving this Bill, when silver ounce is converted into money with an official value assigned by Banco de México, commercial banks will not be able to carry out this practice, and Banco de México will be the one to obtain a profit as seignorage.

Presently, Banco de México gets a very wide seignorage of more than 99% on notes issued thereby, and in the case of the Libertad ounce, this percentage shall be at least of 10%. However, given that it is not foreseen to replace any amount of regular notes and coins that Banco de México presently issues –the Libertad ounce shall enter in line with and as complement– the seignorage that Banco de México currently receives from regular notes and coins will be the same and, additionally, that from the Libertad ounces will be added.

Mention is also made that, once the circulation nominal value of the Libertad ounce is established, Banco de México shall be favored from transitory drops in the silver international price, since Banco de México will reduce its minting costs at that time and will increase the seignorage to its favor.

IV. Description of the Bill

This amendment to the Mexican Monetary Law being proposed, by virtue of this Bill, consists of the following:

- a) Article 2 is added with paragraph d), with the purpose to include the silver ounce ‘Libertad’ within the classification of legal currencies, and to establish the method so that Banco de México may initially establish its nominal value, and may adjust it upwards in case an increase in the international value of silver may reduce considerably or eliminate coverage of its minting and seignorage costs.

- b) In order to avoid speculative movements that force Banco de México to give a high nominal value to the silver ounce, a provision for exception is included, which shall allow Banco to keep the last nominal value for a period of six months, until it is proven that silver prices return to market prices.
- c) This paragraph provides for that the nominal value of circulation shall be an amount adjustable to multiples of Five Pesos, in order to have a figure that population may easily remember and more convenient in accounting terms. In addition, this adjustment upwards shall serve as a margin that will allow keeping the official equivalence without any change when the price of silver rises only marginally.

As a result of the foregoing stated, through your honorable person, the President, we submit to the consideration of the Mexican Congress, the following:

BILL WITH EXECUTIVE ORDER DRAFT WHEREBY ARTICLE 2 OF THE UNITED MEXICAN STATES MONETARY LAW IS ADDED, IN ORDER TO INSTITUTIONALIZE THE SILVER CURRENCY WITHIN CURRENCY IN CIRCULATION PERMANENTLY.

ARTICLE- Article 2 of the United Mexican States Monetary Law is added with a paragraph d), to read as follows:

Article 2

.....

- d) The silver ounce ‘Libertad’ that shall be considered legal currency in its nominal value in force in Mexican Pesos.

Banco de México shall exclusively determine and modify the nominal value of the silver ounce ‘Libertad’. The initial nominal value of the silver ounce ‘Libertad’ shall be established by adding the following factors: the international price in force of the silver ounce, in Mexican Pesos, cost of minting, and a seignorage no greater than 10 percent calculated on the total cost of the currency; the result of this sum must be rounded up to the immediately higher multiple of Five Pesos.

Banco de México shall determine an increase in the nominal value of the silver ounce ‘Libertad’, following the procedure stated in paragraph two of this paragraph, whenever the total sum of the factors exceeds the nominal value in force.

The nominal value shall be published in the Official Gazette of the Federation every day and, once established, this nominal value may not be reduced in any case.

In view of a probable extraordinary increase in the price of silver, Banco de México may keep the nominal value in force, without considering such increase, for a maximum six-month period. Upon expiration of this period, Banco de México shall establish the new nominal value, following the procedure stated in paragraph two of this paragraph, if the total sum of such factors is higher than the nominal value in force.

Banco de México shall mint as many “Libertad” ounces as required to avoid that shortages of these coins may give rise to speculative overprices above the nominal value established by Banco de México.

TRANSITORY

Sole.- This bill shall become effective the day following its publication in the Official Gazette of the Federation.



HUGO SALINAS PRICE

Born in 1932. His early education took place in Mexico and he finished High School in the USA. He was at Wharton for one year. In Monterrey, Mexico he enrolled in the Technological Institute of Monterrey for a year and half. In Monterrey he met his future wife. Tried Law at the National University of Mexico but found that being a lawyer did not appeal to him.



Having decided to stop wasting time, in 1952 he became general manager of “Elektra”, a small struggling radio manufacturer founded by his father two years earlier. He remained in that post 35 years; in 1987 he left the management to his eldest son.

At this time he is honorary president of Grupo Elektra, an important Mexican retailing enterprise from which his family’s interests have spread into television broadcasting and banking.

Besides his business activity he has since youth been interested in monetary matters. Over the years he published many articles in Mexican newspapers in which he pointed out the bad consequences of economic policy based on paper money and excessive government spending.

After the devaluation of the Mexican peso en 1995, he wrote his first book, “La plata: el camino para Mexico” (“Silver: the road for Mexico”), published by Editorial Diana. Since then he has worked to popularize his objective which is to institute a silver coin in permanent circulation in parallel and complementary to the fiat peso.

In 1997 he founded the Mexican Civic Association Pro Silver, A.C., of which he is President.

He have published the following books: “Más sobre la plata” (“More regarding silver”), 2002, and “La plata y la zozobra del papel dinero” (“Silver and the wreck of paper money”), 2003, both published by Editorial Diana; “Cómo introducir la moneda de plata a la circulación” (“How to put the silver coin in circulation”), 2008, by Abacar Ediciones and “La plata y la crisis anunciada” (“Silver and the announced crisis”), 2010, by Editorial Grijalbo.

He writes articles for the Association’s website www.plata.com.mx and from time to time some of his articles on monetary affairs are translated into English and appear in websites such as oroyfinanzas.com, gold-eagle.com, financialsense.com, lemetroplecafe.com and others.

His project regarding the monetization of the silver ounce served as the basis for the elaboration of a Bill which is now, May 2009, in the Chamber of Deputies of Mexico; it has widespread support in all the political parties and awaits the vote of the Chamber.

The world's great house of cards built of imaginary money is in grave danger of collapsing. The world's banking systems have created a gigantic mountain of debts. The debts are now coming due and the only way they can be paid or rolled over is by destroying the value of the fiat money in which the debts are denominated. The world faces an unprecedented economic crisis.

As in previous experiments with fiat money, its advocates wish to attribute all the calamities which inevitably accompany fiat money to anything but fiat money itself.

We must be offered a new vision of life and of the road to follow. The fiat money paradigm has been exhausted.

Humanity urgently requires a means of savings which is real, tangible and of universal intrinsic worth. The institution of silver money circulating in parallel with fictitious money is the first indispensable step to rebuild a society based on real savings in the hands of the people who constitute society.

In Mexico, the recognition of the importance of placing silver money in the hands of the population has taken firm root; we believe that it is only a matter of time for Congress to approve the monetization of a silver coin which will circulate in parallel with the fiat peso.

This measure can also be carried out in any other country. The British Treasury could mint its own silver ounce and monetize it, according to the same fundamental method which we have proposed for the Mexican silver ounce.

This pamphlet explains the simple method by which it is possible to introduce a silver coin into circulation in parallel with fiat money.

