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Notes: This proposal mimics the typical operations of the Bank of England in the 1900-1910 era, and the Federal Reserve in the 1920s, using a combination of both bullion redeemability and open market operations in government debt to manage the monetary base.

A provision is included to create an appropriate parity price for the reinstatement of a gold standard system. Many different methods could be used to accomplish this goal.

Gold Standard Act of 2012

- In accordance with the U.S. Constitution Article I Section 10, the U.S. dollar's value shall be linked to gold at a fixed parity rate.
- In addition to paper monies in circulation, gold coins from the U.S. Mint shall serve as legal tender in all transactions, at the indicated parity rate.
- Gold bullion in any form, including coins and bars of foreign or private origin, of purity of 85% or greater, shall be acceptable as payment in commercial transactions with the consent of all participating parties. (Most gold coins are 90% gold and 10% copper, to increase hardness.)
- All taxes, fees and impeding regulations related to transactions of gold bullion, and use of gold in monetary transactions, shall be abolished.
- The Federal Reserve, via the U.S. Mint, shall make available for sale in unlimited quantity 1 troy oz. gold coins at the parity price, plus an optional coinage charge not to exceed 4% of the parity price. This function allows for "redemption" of dollar base money into gold bullion in small scale.
- The Federal Reserve, via the U.S. Treasury, shall make available for sale in unlimited quantity 400 oz. standard investment bars at the parity price, plus an optional redemption charge not to exceed 2% of the parity price. This function allows for "redemption" of dollar base money into bullion in large scale.
- The Federal Reserve, via the U.S. Treasury, shall purchase 400 oz. standard investment bars or 1 oz. U.S. Mint gold coins, in unlimited quantity, at the parity price, adjusted if necessary by wear and other factors affecting actual metal weight. An optional monetization fee not to exceed 1% of the parity price may be charged.

Determination of the Parity Rate

The parity rate, or the ratio at which the dollar's value shall be fixed to that of gold, will be decided by way of the following process:

Within thirty days after the passage of the Act, a Gold Parity Committee shall be formed.

The Committee shall consist of:

Two members of the Senate
Two members of the House of Representatives
Four citizen advisors who are not elected to, appointed to, or employed by the Federal government or Federal Reserve Bank
Two heads of Federal Reserve regional banks.
Two executives from the banking industry

The Committee's members shall be chosen in the following manner:

The {Republican Leadership] shall choose one Senator, one Representative, two citizen advisors, one Federal Reserve regional bank head, and one banking industry executive.

The [Democratic Leadership] shall choose one Senator, one Representative, two citizen advisors, one Federal Reserve regional bank head, and one banking industry executive.

The Gold Parity Committee shall be given sixty days to discuss and present a proposed dollar parity to Congress.

The House of Representatives and Senate will be given seven days to pass the Committee's recommendation, in an "up or down" vote. Passage by the House or Senate will be by simple majority among non-abstaining voting members. Passage of the parity proposal requires passage by both the House and Senate.

In the event that the proposal does not pass, the Committee will have fourteen days to produce a new proposed parity. Congress will then have seven days to pass the proposal as described previously.

In the event that the second proposal does not pass, the Committee will have an additional fourteen days to produce a new parity proposal. Congress will then have seven days to pass the proposal as described previously.

In the event that the third proposal does not pass, the parity shall be the average dollar price of gold in the open market over the preceding 365 calendar days, rounded to the closest multiple of $10.

Upon deciding the parity rate, a thirty day transition period will be allowed. At the end of this period, the value of the dollar shall be maintained at the parity rate indefinitely.

Operating Principles of the Federal Reserve

The Federal Reserve shall retain its present role as the manager of the currency.

The Federal Reserve shall have two mandates. The first is to maintain the value of the dollar at the indicated gold parity. The second is to act as a "lender of last resort," as the phrase was understood at the time of the Fed's creation in 1913. The first mandate takes precedence over the second in all cases.

Prior mandates and operating mechanisms, regarding the Consumer Price Index, unemployment rate, Fed funds target rate, "quantitative easing" and so forth, shall no longer apply.

The basic operating principles of the Federal Reserve shall be thus:

Maintenance of Gold Parity: The gold parity value of the dollar shall be maintained via adjustments in the monetary base. If the value of the dollar is low, compared to its gold parity, and thus indicative of either excessive supply or diminishing demand for dollar base money (currency in circulation and reserve balances held by member banks at the Federal Reserve), the Federal Reserve shall react by diminishing the quantity of base money via sales of assets. Proceeds from the sale of assets are extinguished, thus reducing the monetary base by an equivalent amount.

If the value of the dollar is high, compared to its gold parity, and thus indicative of insufficient supply or increasing demand for dollar base money, the Federal Reserve shall react by increasing the quantity of base money via purchases of assets. The purchase of assets is funded by the creation of new money, thus increasing the monetary base by an equivalent amount.

In this fashion, the actions of the Federal Reserve shall be essentially automatic in nature, in reaction to market and economic conditions, and shall have essentially no discretionary element. The operating principles of the Federal Reserve shall resemble other automatic mechanisms such as a currency board.

The process by which assets are purchased or sold, thus increasing or decreasing the supply of base money, shall have two main avenues.

The first is by way of purchases and sales of gold bullion in accordance to the redemption feature described earlier. When the Federal Reserve (via the U.S. Mint or U.S. Treasury) sells either coins or bars at the parity price, the dollars received in payment are extinguished, thus shrinking the monetary base by the equivalent amount. This shall not be counteracted by any other mechanism, known as "sterilization." The gold assets of the Federal Reserve shall decline in line with the amount of bullion sold.

When the Federal Reserve, via the Treasury, purchases gold bullion at the parity price, the dollars paid shall be created by the Federal Reserve, thus increasing the monetary base. This shall not be counteracted by any other mechanism, known as "sterilization." The gold assets of the Federal Reserve shall increase in line with the amount of bullion purchased.

These purchases and sales shall be initiated by the private market buyer or seller, exercising their option to buy or sell at the parity price as described earlier. Purchases and sales of gold bullion, initiated by the Federal Reserve or Treasury, to adjust reserve holdings are covered below.

The Federal Reserve may also opt to purchase and sell high-quality dollar-denominated debt, in the form of U.S. Treasury bonds and bills, or other investment-grade debt such as corporate or mortgage-related debt, as a means to adjust the monetary base.

In the event that U.S. Treasury debt is not readily available, as may be the case if outstanding Treasury debt falls to a low level, suitable investment-grade dollar-denominated debt such as corporate or mortgage-related debt can be used.

In its transactions in the debt market, the Federal Reserve shall be a seller of debt assets when the dollar's value is low compared to its parity, thus reducing the monetary base. The Federal Reserve shall be a buyer of debt when the dollar's value is high compared to its parity, thus expanding the monetary base.

The Federal Reserve has some discretion as to its sales and purchases of debt assets. However, the Federal Reserve's actions must always be in line with its operating principles, which is to reduce the monetary base when the dollar is lower than its parity value, and to expand the monetary base when the dollar is above its parity value.

The Federal Reserve has no mandate to affect short- or long-term interest rates on a regular basis, which are to be determined by private borrowers and lenders. The Federal Reserve's open market actions, either the purchases or sales of gold bullion or debt assets as described previously, will naturally have some effect on the availability of bank reserves and thus interbank interest rates, but in all cases the value of the currency vs. the gold parity should be the focus of Federal Reserve action.

Bullion Redemption "Trading Band." As described previously, the Treasury has the option of requiring a redemption fee of up to 2% of the parity value for redemptions (base money submitted and bullion received), and a monetization fee of up to 1% of the parity value for monetizations (bullion submitted and base money received). The effect of these fees are to cause an effective redemption price of 102% of the parity price, and an effective monetization price of 99% of the parity price. In effect, this creates a "trading band," which should reduce the demands for bullion transactions to a relatively low level. By adjusting the fees, the Treasury can widen or narrow the effective width of this "trading band."

The Federal Reserve is expected to act before the value of the dollar hits either side of the "trading band" vs. gold bullion by increasing or decreasing the amount of base money in existence through the use of open market purchases and sales of high-quality debt. Thus, base money adjustments via debt transactions are the first and most common avenue of action, and base money adjustments via bullion transactions are a second and less common avenue.

Congressional Suspension of Bullion Redeemabiliity: In times of great instability, as may occur during a major war or a civil war, Congress may elect to suspend the redeemability requirement. In this case, bearers of U.S. dollar base money will not be able to request redemption into gold bullion from the U.S. Treasury.

Congressional suspension of bullion redeemability requires a two-thirds supermajority vote of both the House and Senate. All Congressional suspensions require a time limit at which redemption is resumed. This time limit may not exceed 180 days after the effective date of suspension.

Congress may extend the period of suspension of redeemability by an additional vote, subject to the previous conditions of a supermajority vote and a time limit not to exceed an additional

180 days.

Congressional suspension of bullion redeemability in no way affects the Federal Reserve's mandate to maintain the dollar's value at its gold parity. In the event of a Congressional suspension of redeemability, the Federal Reserve must continue to make use of open-market sales and purchases of dollar-denominated debt to maintain the dollar's value at its gold parity as previously described.

Bullion Reserve Requirements: In principle, the Federal Reserve shall maintain a bullion reserve (value of gold assets at parity price) of no less than 15% of base money outstanding. The Federal Reserve may hold bullion reserves in excess of 15%, up to and even exceeding 100% of base money outstanding, at its discretion.

To allow operational flexibility, it is not necessary for the Federal Reserve to maintain this reserve ratio on a daily basis. If the average daily bullion reserve ratio falls below 15% over a calendar year, then the Federal Reserve must act to increase its bullion holdings to bring the annual average ratio to 15% or higher.

Gold bullion that is held as part of the reserve must be in metallic form of at least 85% purity. This bullion reserve shall not be encumbered in any way, via leases, collateral agreements, swaps, and so forth. No legal agreement, such as a lease, forward contract, futures contract, option, swap and so forth shall take the place of physical, metallic gold bullion.

The gold reserve shall be audited on an annual basis, and the results of the audit made public immediately upon its completion.

As of the end of 2011, the United States reports gold bullion reserve holdings of approximately 262 million ounces, which is about 5.24% of the roughly 5.0 billion ounces of aboveground gold estimated to be in existence. All world central banks, including the United States, report 988 million ounces of bullion holdings, or about 19.76% of estimated aboveground gold. Annual mining production is roughly 70-80 million ounces per year.

At a price of $1600 per ounce, the 262 million ounces reported by the United States is enough to provide 15% reserve coverage for $2,794 billion of base money outstanding. The monetary base as of the end of 2011 was $2,577 billion, consisting of $1,567 billion of bank reserve balances with the Federal Reserve, and $1,010 billion of banknotes in circulation. However, the bank reserve balances are abnormally high today, and would be expected to decline, as a percentage of base money, over the longer term.

Adjustment of bullion reserve holdings: The Federal Reserve may change its ratio of bullion to non-bullion reserve assets in the following manner:

In the event that bullion holdings are deemed to be excessive, the Federal Reserve may sell bullion holdings on the open market, and purchase non-bullion assets (high-quality dollar denominated debt) with the proceeds of the sale. This action does not change the amount of base money outstanding.

In the event that bullion holdings are deemed to be insufficient, the Federal Reserve may sell non-bullion assets, and purchase bullion on the open market using the proceeds of the sale.

This action does not change the amount of base money outstanding.

Adjustments of reserve holdings shall be conducted in a manner that is as non-disruptive of market and economic conditions as possible.

Redemption of Dollars for Bullion: The Federal Reserve shall hold bullion and non-bullion reserve assets (high-quality dollar debt) equivalent to 100% or greater of base money outstanding. Although the Federal Reserve is not required to hold bullion equivalent to all base money outstanding, it is nevertheless required to exchange bullion for base money upon request via the redemption process described earlier. If demand for redemption exceeds bullion reserves, the Federal Reserve must then acquire additional bullion via purchases on the open market. This is achieved by selling non-bullion reserve assets, and using the proceeds from the sale to purchase bullion. In this way, acquisition of additional bullion for redemption purposes does not change the monetary base. Because redemption of base money for bullion reduces the monetary base, as described previously, the Federal Reserve has the ability to ultimately redeem all of its base money outstanding for gold bullion.

Acting as a "Lender of Last Resort": The Federal Reserve has a subordinate mandate to act as a "lender of last resort" as the phrase was understood prior to 1913.

In the past, short-term variation in the need for base money, at times, resulted in a systemic shortage of bank reserves. This crisis is indicated by a shortage of reserves (vault cash and deposits at the Federal Reserve) among all bank participants. The characteristic indicator of such an event is very high short-term borrowing costs even for highly solvent banks, on the order of 10% per annum or above.

The solution for this problem was found to be a central bank that could act as a "lender of last resort." The principles of this lending were: 1) Short-term lending only to highly solvent borrowers against good collateral; and 2) lending at a penalty rate well above the typical money market rate for good quality borrowers, in practice at 10% or higher.

To act as a "lender of last resort," the Federal Reserve may either lend via its discount window, or to engage in repurchase agreements, which are functionally identical to collateralized lending. Either action results in a corresponding increase in Federal Reserve assets and an increase in bank reserves and the monetary base. A penalty rate of perhaps 10% is recommended.

Because of the penalty rate, the borrowing institution will typically endeavor to pay back the loan as soon as possible. Thus, the loan becomes self-cancelling, and does not result in a long-term increase in the monetary base.

The Federal Reserve should not, in principle, lend to institutions that are insolvent or recognized to be poor credits. This is typically identified as institutions that can only borrow at rates significantly higher than the borrowing rates of the best quality credits.

Upon receiving a loan or repo from the Federal Reserve, institutions with best-quality credit can then lend to institutions with lesser quality credit, at market rates reflecting the borrower's credit quality.

In a crisis situation, the Federal Reserve is encouraged to be generous in its interpretation of what constitutes solvency or a good quality credit. However, in the passage of time, the Federal Reserve shall not continue to lend to institutions which have persistent and chronic problems with solvency and creditworthiness.

Support for insolvent institution ("bank bailouts"), guarantees on deposits, money market funds and so forth shall be performed by the Treasury Department and acts of Congress. The Federal Reserve will have no such role beyond its mandate to maintain the gold parity and act as a "lender of last resort" to high-quality credits, at a penalty rate as described.

A persistent and continuing shortage of systemwide bank reserves, over an unusually long period, should be considered evidence of increased demand for base money. This can be addressed by open market purchases of bonds, thus increasing the monetary base.

Revenues and Operating Expenses of the Federal Reserve: All gross revenue of the Federal Reserve system, known as "seignorage," shall be transferred to the U.S. Treasury. The U.S. Treasury will then disburse to the Federal Reserve funds sufficient to cover operating expenses.

Failure of the Federal Reserve to Observe the Gold Parity Mandate

In the event that the open market value of the dollar deviates from the indicated parity by 10% or more over a period of seven calendar days, the President of the United States shall be given the option to replace any and all members of the Federal Reserve Open Market Committee and the heads of the Federal Reserve regional banks.

In the event that the open market value of the dollar deviates from the indicated parity by 20% or more over a period of seven calendar days, the Federal Reserve shall lose its charter and be dissolved thirty days later, unless affirmatively continued by a vote of Congress. In this case, all operations, assets and liabilities of the Federal Reserve, and responsibility for the management of the U.S. dollar, shall pass to the U.S. Treasury.