FOR IRAN,
SILVER MONEY IS MUCH MORE IMPORTANT THAN ITS NUCLEAR PROGRAM

By Hugo Salinas Price

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INTERVIEW WITH HUGO SALINAS PRICE

Founder of the Mexican Civic Association Pro Silver,
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November 7, 2007.

Mr. Salinas Price, why do you think it is important to monetize the silver one ounce coin in Mexico?

The monetary history of the 20th Century has been a history of increasing disorder and improvisation in the monetary affairs of the world. The disorder has come to the point where the world no longer uses real money in its transactions. Consequently, the mass of people in Mexico do not have a satisfactory and trustworthy means for creating personal savings. The silver ounce, converted into money, would be an excellent medium for personal savings.

Furthermore, we are witnessing the development of a worldwide problem: the inability of States to pay the pensions they promised to pay. Mexico is not alone in facing the problem: the financial inability to deliver the promised pensions to retirees. It is therefore urgent for the population to exert itself to the utmost in providing personal savings for retirement, and saving the monetized silver ounce would be the best means to do this. The monetized silver ounce could not be devalued.

Mr. Salinas, why are you so interested in talking to the leadership in Iran, regarding the monetization of silver in the Islamic Republic of Iran?

In my view, Iran's unique circumstances provide several reasons which coincide to make the monetization of silver an attractive and feasible measure for the leadership of Iran.

The religious reason. The monetized silver coin could be the dirham of 3 grams pure silver (plus .28 grams of copper to provide hardness). This is the silver coin prescribed by Islamic *sharia*. It is entirely fitting —or even religiously indispensable — for an Islamic Republic to provide such currency for its people. This coin might, alternatively, be named the **Silver Rial.**

The reason of sovereignty. The Islamic Republic of Iran is truly sovereign because it is not under the control of International Bankers who are in turn, under Zionist control. Iran has the independence indispensable for taking an action that is contrary to the wishes and objectives of Zionism. Iran has a strong government based on 1. a religious foundation, 2. a highly motivated military and 3. it only lacks a sovereign monetary foundation based on real, tangible money of intrinsic worth. The introduction of the silver dirham, to circulate in parallel with the fiduciary rial, is the first step in a process of fundamental development which can take a generation to achieve.

In my humble opinion, a monetary system based upon money which has no real existence is probably incompatible with the precepts of Islam regarding justice.

The social reason. Iran is facing a threat of war on the part of the U.K/USA/Israel axis. The leadership must prepare for such war always hoping the threat does not materialize.

An excellent way to prepare the solidarity of the population with its government, is for the government to carry out a measure most unusual in our times: to provide the population with a means of saving (which is also money) by creating a monetized silver coin, the dirham. The striking difference between the policy of the Iranian government, in enacting such a benevolent and humane measure, and the worn out and unworkable policy of its adversaries who only issue worthless paper or digital money, is certain to create an unbreakable solidarity between people and government in Iran.

A tranquil and confident population, enjoying a means of savings which is reliable because it cannot be devalued, is a necessary base for a stable government. This means of savings will exist in parallel with the Iranian rial, which is at present — due to international blockage — inflating away the savings of the Iranian people, especially affecting the most humble.

The centre of gravity reason: As long as the Iranian rial is inflating, a condition which must continue for an indefinite period ahead, there is a permanent temptation for Iranian people to protect themselves from this inflation by acquiring foreign currencies such as the euro or even the dollar. If the Iranian currency itself includes a *monetized* silver coin, provided in abundance by the government and Central Bank, the centre of gravity is retained in Iran itself. The urgent need for protection against inflation, is readily available within the country; there is no need for accumulation of foreign currencies.

The political reason: The monetized silver dirham, in potential use as money and in actual use for savings which are not subject to devaluation will, internally, have a cohesive effect. Party divisions which will arise in other spheres of political life, will be non-existent as regards the silver dirham; all parties will support this measure. This I can predict, based on our experience in Mexico, where members of all parties are in favor of the monetization of our silver ounce, the "Libertad" coin. Our committee in Congress, working for the monetization of the silver ounce, includes members of all the different parties who are unanimous in supporting this measure. (The only opposition comes from the leaders of some parties who wish to ingratiate themselves with the Central Bank, which responds to the Federal Reserve and is thus adamantly opposed to the monetization of silver.)

Externally, as regards its neighbors, the influence of the silver dirham will inexorably extend itself into the neighboring countries. The populations of the neighboring countries will be eager to acquire the silver dirham for their savings. This will reinforce trade with these countries and with growing trade between Iran and its neighbors, the political influence of Iran in the region will only grow. The dollar and the euro will be less desirable than the silver dirham, because the quality of the silver dirham is superior to those currencies.

It has been a lamentable fact that the USA has utilized its position, as purveyor of the reserve currency of the world, as a political weapon not less important that its military power. Opposing and neutralizing the political influence of the dollar (and now the euro) would be the silver dirham, superior in quality to both of these currencies which have no physical, tangible content. Politically, therefore, the monetized silver dirham is just as important as the military power, while requiring 1. less expenditure and 2. deriving permanent benefits for the population which are not provided by military expenditures, which are completely sterile and unproductive.

The economic reason: An economy built upon money which has no intrinsic value is an unstable economy. This is a curse which hangs upon the whole world, now entering upon a grave and prolonged crisis which cannot be resolved except through painful readjustments.

Stability can only be built upon real money. The introduction of the monetized silver dirham is only the first step in the direction of stability. But the economy will begin to reap benefits immediately.

The monetized silver dirham is a step towards reality as the basis for human interaction. The process of providing this real money to the population of Iran will take a generation, as it is gradually placed in circulation in parallel with the fiduciary rial.

Mr. Salinas, making payments in silver dirhams might involve carrying around heavy bags of silver coins. Would not that be impractical?

The monetized silver dirham would be used mainly for savings; the silver dirham would be irresistible as a savings vehicle, because it would be a coin of superior quality due to its silver content. It would be used as money, only in moments of extreme need. People always prefer to save better quality money and spend money of lesser quality. So most dirhams would remain quietly in savings and circulate very sparingly.

However, there is no reason why the Central Bank might not issue Silver Dirham Notes for 5 Dirhams or more, backed by physical reserves held by the Central Bank in its vault. Incidentally, I will remark that President John F. Kennedy authorized the US Treasury to issue such silver notes for about $4 billion dollars, based on silver in the US Treasury. Some people allege that this action, which bypassed the money creation monopoly of the “Federal Reserve”, was the cause of his assassination.

Mr. Salinas, what about gold?

Gold is superior to all fiat currencies. The present world system, of money with no intrinsic worth, will destroy itself. We are witnessing the beginning of this process. However, gold has always been restricted to the payment of large transactions; there will always be a need for silver money, for daily use in smaller transactions.

The reconstruction of a sound world monetary system must begin at the bottom, with the creation of silver money. Only then, when the base is in place, can a reform at a higher level take place. Reform beginning at the top is unrealistic.

The Zionist control of international banking will, for decades, prevent the politicians and bankers of the world from deciding on any plan that involves the institution of gold as money. The decision to institute silver as money can, and must, come from a truly independent country with an enlightened leadership, thus avoiding the entanglements of international conferences.

I should add, that today international trade is carried out with no true payment of trade deficits. Payment is the delivery of some thing, in exchange for some thing received. Transferring digits on a computer from one owner to another, is not payment, because it does not involve the delivery of some thing — as in other times, gold was the thing delivered. That was true payment and settlement of trade balances.

If China had insisted on payment in gold for its cheap exports, it would not be worried, as it is today, about having “too many dollars in reserves” with a need to “diversify”. No one has ever had too much gold in reserves!

Mr. Salinas, if silver money is so advantageous, why is there no silver money anywhere in the world?

The economic thinkers of the West are paralyzed. They have been trained in their Universities to consider the present system of fiat money — money with no intrinsic worth — as the only possible system.

The present money system of the whole world, depends on debt. All digital money in banks in the world today, exists against debts which cause interest. Thus, the population requires money to carry out economic activities, but is obliged to pay a continuous interest burden, related to the money in circulation. Only real, tangible money such as the silver dirham can have an independent existence which, once created, implies no further cost for the population.

If the Islamic Republic of Iran decides to create the monetized silver dirham, it will have turned on a light in monetary affairs that will affect the future of the world and probably save human civilization from a return to complete barbarism.

THE SILVER BRIDGE

By Hugo Salinas Price

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The essence of the project to monetize the “Libertad” silver ounce and what gives it its originality, is that it builds a bridge between real money, as it existed in the world before 1914, and fictitious or “fiat” money which is in use all over the world today.

Since the remotest days of ancient times, sums of money were calculated on the basis of the *weight* of the silver or gold coins in which trading was done. It was not a number or other engraved sign which represented the value of that money, but its *weight* and *purity*.

For this reason, on the tables of the moneychangers at the regional commercial centers there were always to be found *scales*, in order to determine weight and thus the value of the coins which were to be exchanged. The coins bore engraved signs which showed who minted them; these signs were important because not all coins were of a standard purity. For nine centuries, the *bezant* minted in Constantinople, the present Istanbul, kept its purity unchanged and for that reason it became the most trusted and acceptable of all coins in Europe and in the distant regions to the East.

All human institutions go through cycles of advance and retreat. The institution of money has been no exception. In the years prior to the First World War (1914-1918) monetary theory and practice reached its greatest development; the world had universally accepted the doctrine that money, in order to fulfill its civilizing function, must incorporate a content of precious metal that will be of invariable weight and purity.

At the moment of reaching its highest development, monetary theory entered into decadence, to such a degree that today, one hundred years later, the world is living on the edge of a great crisis. Today, not a single currency in the world has a valuable content; all of the one hundred and eighty or so currencies in the world have absolutely no intrinsic value at all.

Today, the measure of value of a coin, of a note, or of a bank deposit is simply a *number*. This number does not refer to a quantity of *something*; it is an imaginary value which is used in transactions.

In Mexico we have silver coins, such as the “Libertad” silver ounce. These ounces do not bear a *numeric* value. They are valuable and people save them for that reason, but they are not *money*, because in today’s world what counts in order for a coin or a note to be money, is that it must show a *number*. Bank deposits – which are fictitious money as well as invisible – must be quantifiable by means of a number.

Today, without a number, the silver ounce cannot be money. In other ages, when what counted towards calculating the value of a coin was its weight and the purity of the metal, the silver ounce would undoubtedly have been money. However, those are not today’s conditions. Today, if a piece of precious metal is to be used as money, it must show a *number* that will indicate its value in commerce.

In 1979 the president of Mexico, José López Portillo, attempted the monetization of the silver ounce, which during his term in office was the silver ounce known as the “Silver Scales Ounce”. To do this, a *number* was to be given to the silver ounce, which would determine its monetary value. According to legislation, the Bank of Mexico was to determine that number, based on the value of silver in the international precious metals market.

The plan collapsed in 1981, two years after its start-up, because the numeric value attributed to the ounce varied from day to day; actually, the “Scales Ounce” had not been monetized at all; it was still a commodity and its value fluctuated from day to day, according to the price of silver as a commodity.

All coins and bills in all countries today show numeric values *which cannot be reduced.*

The failure of José López Portillo’s plan was due to the fact that no one had perceived that it was necessary to stipulate that the value attributed to the ounce by the Bank of Mexico should not be subject to any reduction: in order for the ounce to become money, its nominal value - its *numeric* value - must never be reduced. Only in this way, can silver cease to be a commodity and become money along with the mass of coins, notes and bank deposits which have no intrinsic value at all.

It is of no importance that this numeric nominal value is not engraved upon the coin. Actually, it is necessary that this value should not be engraved, because the value of silver has been going up all around the world, together with the increase of fictitious money in circulation, which is now used in the whole world. Any number engraved upon a silver ounce, which might represent its value, would be surpassed in the course of time by the continuing depreciation in the value of fictitious money. This has been the history of all our silver coins: again and again, when the value engraved on the Mexican silver coins in circulation turned out to be less that the commodity value of their silver, the silver coins ceased to be money and became a commodity. Their engraved value was surpassed by their intrinsic, commodity value obtainable at a refinery.

This is the keystone of the bridge between fictitious money circulating in the world today and real money with silver content: a nominal value, attributed by the monetary authority, which cannot be reduced, but which may be readjusted upward according to the rise in value of silver.

It is important that we monetize the "Libertad" silver ounce and build this bridge between fictitious money and real money, because all historic experience demonstrates that "fiat" money invariably goes down in value to zero. Never has any fictitious or "fiat" money with no intrinsic value been able to endure over time. The currencies of today, including the most prestigious such as the dollar, the euro, the pound sterling or the Japanese yen will not be exceptions to this experience. Everyday statistics confirm the historic experience: all monies are on their way to a total loss in value. As a grim example, Argentina has cancelled out 22 zeros from its currency, from 1930 to today.

Here are some numbers that show how money in circulation is going up all over the world, which will result in a loss of purchasing power:

Percentage of annual increase in circulation*:

Eurozone:	+10%
Great Britain (M4):	+13%
India (M3):	+20.3%
China (M2):	+17.2%
Australia (M3):	+13%
South Korea (M3):	+11.3%

New Zealand (M3):	+18%
Japan (M3):	+ 6%
Russia (M3):	+49%
USA (M3)	+12% (Est.)

*Data from John Embry, Sprott Asset Management, Toronto, Canada.

The M3 data for the USA is no longer published by the Federal Reserve, as of March, 2006. It is suspected that the "Fed" wants to hide what is going on. Some individuals have made careful studies which lead us to believe that the annual increase of M3 is at 12%.

The "total bankization" – the complete elimination of coins and bills – which is the dream of the owners or administrators of the great banks of the world, is an unrealizable illusion and a very fragile construct if indeed, it were possible. Besides the inevitable trend to the total depreciation of money, a total "bankization" spanning the whole world and integrated into a single world currency would have to rely on the maintenance of world electronic communications, which would have to be highly technical, highly expensive and highly vulnerable in the case of wars or social upheavals.

And besides this, if national Central Banks have, in the course of one century, brought us to the brink of a wild monetary inflation, it is likely that once united in a single World Bank, its noxious power would be many times worse. Such a Bank would represent an absolute concentration of power and it is worth recalling the words of Lord Acton: "Power corrupts and absolute power corrupts absolutely."

The stability of civilization depends on monetary stability, which makes it possible. Stability is not to be found in complexity but in *simplicity*. As in other times it was fashionable to say that "Nature abhors a vacuum", we can say today that "Nature abhors complexity".

The "bankization" that the technocrats hunger for is extremely complex and lacks a real and enduring foundation, because the money it offers is fictitious. It will not bring us, as human beings, either peace of mind or satisfaction, but rather all sorts of tribulations, for "bankization" is based on fictitious money which tends to a final loss of all value, gravely threatening human life.

In support of this, let us note that the EOCD ("European Organization for Cooperation and Development") recently declared that "governments must look for means of satisfaction that increase the happiness of their nations, since happiness, according to a recent study, is not a direct result of greater GNP." The study of the EOCD revealed that the Norwegians, with an annual per capital income of $35,000 dollars, were less happy than Mexicans, who only have a per capital income of $10,000 dollars.

The monetization of the silver ounce, by means of the bridge which we have designed – a nominal value which cannot be reduced, but which can be readjusted upward – is a return to simplicity and to reality in the economic field. Its simplicity guarantees that the silver ounces will be in circulation and serving human beings for centuries after the collapse of fictitious money and even after the disappearance of the Central Banks of the world.

The monetary system which prevails in the world is like a horse which is galloping out of control and is rushing to a precipice. It was in August of 1971 that this horse took the golden bit in its teeth and began to trot briskly. The politicians, the bankers and the economists were so pleased!

36 years later, not a day goes by that worried voices are heard, warning that this wild rush has become a nightmare and that the precipice is now very near.

There is no lack of economists and financial analysts who are conscious of the danger of an economic collapse caused by the unbridled expansion of credit and fictitious money in circulation, but they are stumped by the problem of how to reinsert precious metals into the monetary system, to bring this deadly race under control.

These economists and financial analysts, experts in monetary theory and in monetary history, always come up against a problem they cannot resolve because their mindset blocks the way: they conceive of the precious metal coin as *having an engraved numeric value.* We live in the "Age of Number" and these experts have not been able to resolve the problem, which is that a precious metal coin with an engraved value, will have to go out of circulation sooner or later! The silver coin with an *engraved* value is obsolete, in today's monetary world.

The "silver bridge" we have designed resolves the problem in a surprisingly simple manner: the first part of the bridge is that the silver coin must have *no* *engraved value.* The second part is that the monetary authority must attribute to this coin, *a nominal numeric value.* Finally, the keystone which completes the bridge is the condition that *the last nominal value attributed, must never be diminished.* This is the bridge that turns the silver coin into money that will be instituted in permanent circulation, by the side of fictitious money.

I may be asked: "Will silver, circulating in parallel with fictitious money, be able to stop the world's race to the financial and monetary abyss?"

I doubt it will be able to do so. The unbridled expansion of credit and money of the last 36 years has distorted the productive structures of the nations. The damage has been enormous and fundamental because these structures have responded to great flows of credit and of fictitious money and are therefore not based on economic realities, but rather on illusions which have confused the economic actors. The economic information (regarding the amount of real capital actually accumulated in the world) which has been provided by these flows of credit and money is false information. The facts based on this false information (signal *noise*) cannot be made good: further on we shall perceive these facts as tremendous errors of malinvestment.

However, the institution of the silver coin in Mexico, circulating in parallel with fictitious money, will doubtless bring with it transcendent beneficial effects for Mexico, and those effects will be observed by the rest of the world. The monetary history of the world since 1914 to the present, has been the history of world monetary deterioration unrelieved by one single positive fact. It is only now, in 2007, that there is a possibility of a positive fact, with the institution in Mexico of the silver ounce in permanent circulation alongside of fictitious money.

In a world that is increasingly worried and confused, this positive fact might encourage economists all over the world to rethink what can be done to mitigate the coming disaster. When it was thought there was no alternative, suddenly there becomes visible a new road and a new hope.

Perhaps Mexico shall have the glory of offering the world this new road and this new hope of providing civilization with a stable, just and realistic base.

A BRIEF EXPLANATION OF THE PROJECT TO MONETIZE THE ONE OUNCE SILVER 'LIBERTAD' COIN

By Hugo Salinas Price

A presentation to the monthly meeting of the "Círculo de Estudios México"("Circle for Mexican Studies), chaired by its founder, former President of Mexico, Miguel de la Madrid Hurtado (1982-1988)

October 2, 2006.

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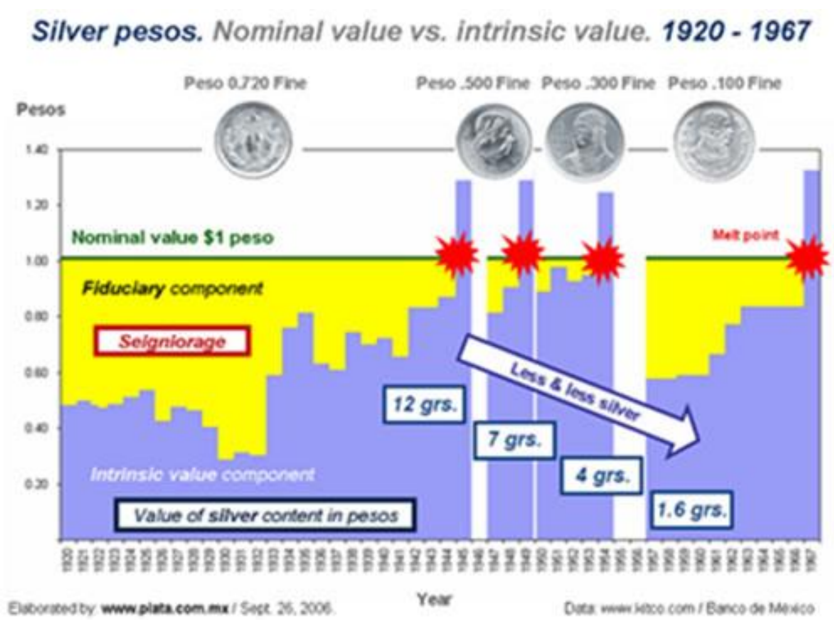
1. We are not the first to insist upon the monetization of the silver ounce. President José López Portillo intended to do this, in 1979; he wished to turn the silver ounce into money for an amount equivalent to its quote by the Banco de México (the Mexican Central Bank) and with that in mind he drew up the corresponding legislation which he proposed and which Congress approved in December 1979. During the space of two years, the population attempted to use this monetized silver coin as money in transactions, but the effort had to be suspended in December of 1981 for the simple reason that the legislation was *defective.*

2. According to the legislation of López Portillo, the silver ounce rose in monetary value when the price of silver rose and it received a correspondingly higher quote from the Central Bank. This condition, that the quoted value of the silver ounce should rise when the price of silver rises, is incorporated in the new legislation proposed by the Mexican Civic Association Pro Silver, and simply takes up what was previously proposed by the López Portillo legislation. We are proposing nothing new here.

3. The error that determined the failure of the attempt on the part of President López Portillo to monetize the silver ounce was that any coin that is to be used as money, must have a nominal value *which cannot be reduced.* All the coins we use, as well as all the bills we use, bear either an engraved or a printed value, and this value can never be reduced. A legal stipulation in the sense that the value cannot be reduced would be, in the case of these coins and bills, utterly *redundant;* the Law does not require this stipulation because it is impossible to reduce the engraved or printed value of coins and bills. However, in the case of a coin with no nominal engraved value which is to be turned into money – as was the intention of López Portillo – we must have *explicit* legislation, so that this condition which is *implicit* in our present coins and bills, may be stated *explicitly* in the case of the "Libertad" silver ounce. This explicit statement in the legislation is indispensable in order to fulfill the desire of López Portillo to turn the silver ounce into money. It was the absence of this stipulation which led to the failure of López Portillo's effort. *That the quote of the silver coin shall not be reduced in value is a principle which already operates, necessarily, with all coins and bills which we use as money. There is nothing new in the principle. The only novelty in our project is that, in the case of the monetization of the "Libertad" silver ounce, that nominal value shall be* ***virtually engraved*** *and not physically engraved as is the case at present with our copper-nickel coins.*

4. With regard to the re-valuation of silver on the part of the Central Bank, the Central Bank has in fact been re-valuing silver from the period 1947 to 1967 and beyond. If we look at the attached graph, we shall see that it is evident that each new minting of peso coins after the one peso 0.720 coin (1920-1945) incorporated a re-valuation of silver, which took the form of a *reduction in the quantity of silver in the Mexican one peso coin.* This entailed an expensive process of retiring all the previous coinage from circulation, which was demonetized because it had reached the "melting point", and of minting new pesos which incorporated the new, higher value of silver.



The monetization of the silver ounce which is proposed by the Mexican Civic Association Pro Silver requires a re-valuation of silver when its price rises. The principle is not new, but up to this date, it has required *new coinage.* With the proposed legislation, no new coinage will be required. The same coin, revalued from time to time, *with a quoted nominal value which cannot be reduced*, will remain in circulation permanently.

5. A silver coin in permanent circulation as money, whose value rises with the price of the silver it contains, is of incalculable political and social value. Such a coin becomes a permanent *institution*, tangible and visible, which gives continuity and solidity to the sense of nationality. By avoiding the re-minting of coinage, which the previous use of silver in our coins required - and which implied the demonetization of national savings every time this was carried out - the same coin, the "Libertad" ounce, with a growing value, becomes an ideal vehicle for savings; a vehicle immune to monetary inflation and to the financial woes that may overtake the nation.

6. This coin favors savings in the most effective way possible, because it offers the saver something that is *worth saving.* This form of saving does not require high interest rates. Whatever silver is minted will go to savings as long as money in circulation continues to grow. Only when money in circulation stops growing – a hypothetical situation far over the horizon at present – would these coins emerge from savings to circulate alongside paper money in commercial operations.

7. Those saving the silver ounce turned into money, will immediately have the option of financing their projects with their saved silver. Silver in custody accounts will immediately and unquestionably be accepted as prime quality collateral by the banking system for loans in pesos at the lowest possible rates – similar, perhaps, to the rates which prevail on government securities.

8. As we have shown, the project for the monetization of the "Libertad" silver ounce includes nothing new in principle and it is actually only an adaptation to modern conditions of principles which have always operated with regard to coinage: the *re-valuation* of the silver in the coin and the *stability* of the nominal, "quoted" value, by means of a quote which cannot be reduced, which thus gives the coin a *virtual "engraved" value*, instead of the physically engraved or printed value which is displayed by our present coins and bills.

MONETIZATION OF THE SILVER RIAL IN IRAN

By Hugo Salinas Price

November 7, 2007.

Data used in the following calculations:

Iranian Rial = 0.000 1054 US Dollars (Nov. 7, 2007)

Spot silver price = $15.24 US Dollars per Troy ounce, 31.103 grams. (Nov. 7, 2007)

The silver Rial will be .916 fine silver, with a gross weight of 3.28 grams.

Thus, the pure silver content of the silver Rial will be 3 grams, which coincides with the weight of the dirham, according to Islamic Law. (Umar Ibn al-Khattab).

3/31.103 = .09645 Troy ounce pure silver in silver Rial.

.09645 X $15.24 = $1.49 Dollar value of silver in silver Rial.

$1.49/.000 1054 = 14,137 Rials, value of pure silver in silver Rial.

(The silver Rial will bear no engraved nominal value.)

Procedure for monetization

The objective is to institute the silver Rial in permanent circulation, in parallel with the present Rial monetary system of Iran.

The Central Bank will establish a nominal legal tender value for the silver Rial, expressed in Rials, which — like all nominal values of all currencies — cannot be reduced.

(Once a coin receives an established legal nominal value, the nominal legal tender value becomes independent of the material of which the coin is made. Falls in the price of silver are no longer relevant to the legal nominal value.)

Legislation shall authorize the Central Bank to establish the nominal value at a level sufficient to yield a seigniorage to the Bank of *50%* over the value of the silver content of the Silver Rial. (The percentage of seigniorage is optional. In view of the relatively high cost of minting a small, 3.28 gram coin, we recommend this *50%* seigniorage. A seigniorage of *50%* is practicable and offers no difficulty. If the price of silver increases rapidly, the percentage of seigniorage can be reduced, always provided that the last nominal legal tender value is not reduced.)

For purposes of this example: 14,137 rials value of silver in coin /*.5* = 28,273 Rials.

For the convenience of the population, it is recommended that the nominal value should be in round numbers. A rounding-up to the nearest thousand would appear to be convenient. Thus, the nominal legal tender of the silver Rial should be established by the Central Bank, at 29,000 Rials.

When the price of silver rises to the point at which it impinges upon the profitability of the Bank in minting silver Rials, the Central Bank will establish a new, higher quote. Let us suppose that the seigniorage has fallen to *45%*, as a result of a rise in the price of silver to $17.43 Dollars/ounce. The next, higher, quote could be set at 32,000 Rials, thus recovering the seigniorage of *50%*.

(The Mexican legislation being proposed, stipulates that the Central Bank may delay the establishment of a new, higher nominal value for the silver coin for a period not to exceed six months, in the event that it suspects that the rise in the price of silver is of a speculative and transitory nature. Within six months, however, a new and higher nominal value must be established, if the spot price of silver has risen.)

As of November 7, 2007 a silver Rial with a gross weight of 3.28 grams, .916 fine, would become monetized when the Central Bank establishes its legal tender nominal value at 29,000 Rials. In order for this silver coin to function as *money,* it is imperative that *no future attribution of legal tender nominal value be for a lesser value.* Such a condition applies to all paper money bills and coins everywhere, and the same condition must prevail in the case of the silver Rial, in order for it to function as money, in parallel with paper money.

The demand for this coin, within Iran and on the part of the Middle Eastern population, will be very strong. Its irresistible attraction lies in the fact that it will be a money that has real value within its nominal value, which is not the case with paper and digital money. It will be an ideal vehicle for savings of poorer people. A currency of quality, which will circulate together with paper money, has always been and always will be a pillar of strength for any nation in that it fosters patriotism and nationalism and offers peace of mind and contentment to the population. The silver Rial will be a currency *superior* to any in the world, because of its content of silver, absent from all of the world's money today.

Note: a high seigniorage of *50%* would be practical and profitable for the Mint. To derive the full advantage — political and social - of instituting this coin, we recommend that the Central Bank increase the value of the silver Rial, *pari passu* with increases in the price of silver. In this way, the seigniorage or profit of the Central Bank is maintained at a constant level, and the population can derive the satisfaction of seeing the value of its silver Rials increase by smaller increments, instead waiting for one large increase in value when the price of silver has come close to eliminating the profitability of minting this coin. A lower seigniorage can also result in smaller and more frequent increments in nominal value.

HISTORICAL BACKGROUND SILVER IN IRANIAN HISTORY AND GOLD DURING WW II

Extracts from the book "Money and Man"
By Elgin Groseclose
University of Oklahoma Press, 1977.

What the money managers had overlooked is that while silver might be dethroned as a medium of payment or standard of reckoning, it retained a vast importance in Asia as a store of value. Among these poverty stricken millions, a piece of honest silver saved from the day's or week's earnings was the beginning of financial security, independence, and contentment. When the colonial and other sovereignties began to substitute paper money and debased silver for good silver coinage they opened the flood gates to political discontent and revolution.

The experience of Iran is of interest. In 1294 A.D., Kai Khatu, the Mongol ruler of Persia, on the advice of his vizier and in imitation of his brother monarch, Kublai Khan in China, introduced paper money into his realm. This action aroused such resentment among the merchants that a riot ensued. The vizier was seized by the mob, torn to pieces, and thrown to the dogs. The edict establishing paper money was withdrawn and no Persian monarch until the twentieth century dared impose paper money upon his subjects.

The standard of value and the common medium of exchange continued to be silver of high purity. Paper money was an alien device until 1931, when the modern-minded Reza Shah introduced a national bank of issue and gradually withdrew and melted down the silver coinage in circulation.

It is of interest to record that Reza Shah lost his throne just ten years later, and while the one event was not the cause of the other, it nevertheless facilitated the execution of the other.

When the Soviet and British governments concerted in 1941 on the occupation of Iran, the Shah's forces were able to offer only feeble resistance, and the

Shah was compelled to abdicate. The two powers, however, affirmed the juridical independence of the country and forswore any interference with the internal administration. By these declarations they excluded the prerogative of a conqueror, of levying taxes, and they were consequently compelled to find means of financing their occupation.

Twenty years earlier, during World War I, when Great Britain sent an expeditionary force into Persia, the unfamiliarity of the people with notes and exchange compelled the commander to carry quantities of British gold sovereigns; with these, however, he had been able to buy supplies, recruit workers to clear the passes of snow, and even to organize a guerrilla force.

Now, a simpler and less expensive procedure was available. It was to set the printing presses to rolling. The occupying powers coerced the supine Iranian government into financial agreements by which the Iranian national bank was compelled to provide unlimited quantities of *rials* in exchange for sterling and dollar exchange at a fixed rate. Subsequently the British government agreed to convert 40 per cent of the sterling credits into gold at the official parity, stipulating, however, that the gold be kept either in Canada or South Africa.

To the consternation of the occupying authorities, the *rial,* which vas theoretically the most heavily insured currency in the world, began a precipitate depreciation that carried with it— since they were tied by the exchange agreement—the pound sterling and the United States dollar (also the ruble, but the ruble had no international value in any case, and the Soviet government had guaranteed in sterling and dollars its drawings of *rials*.) Chaos spread in the market, goods disappeared into hoarding, including precious wheat and copper, and famine gnawed at the country.

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Within the year conditions had grown so beyond the feeble powers of the government that it was counselled to seek fiscal advisers from abroad, and among these the author was appointed Treasurer General by action of the Iranian Parliament. At the time of his arrival, in January, 1943, such was the disruption of the markets and the depreciation of the currency that an automobile tire that normally sold for $40 cost $700 in the bazaar.

The author had some familiarity with the country from residence twenty years earlier, when he served as a teacher in northern Iran and relief worker in the

Soviet Caucasus. He had observed the relative economic stability of the Iranian villages despite the breakdown of political authority and an almost nonexistent administration, and for contrast the chaos and prostration of the cities of the Caucasus, ruthlessly governed by an all-powerful Communist dictatorship. In the one region, trade and livelihood persisted with the aid of a plentiful supply of good silver coinage; in the other such anemic trade as one could see was done by means of a depreciated paper currency so worthless that it often went by weight—a bundle of notes in one scale, a loaf of bread in the other.

Persuaded that only with the precious metals freely available as a medium of payment and store of value would the hoards of grain and copper be released and prices stabilized, he proposed that the minting of silver *rials* be resumed. As the dies had been broken and the mint had fallen into disrepair, this idea had to be abandoned.

He thereupon recommended that instead of keeping the gold locked up it be put to work to discharge its historic functions. He proposed that the occupying powers finance their costs with gold instead of sterling and dollar exchange, and that gold be sold directly in the market, to relieve the strain on the printing press. Not only would the process stop the expansion of the note issue, but it would reduce the costs of occupation, since the bazaar price of gold was equivalent to $70 to $80 an ounce, as against the *$35* an ounce at which dollars and pounds were being sold to the Iranian national bank for *rials.* Importantly, hoarders would have a more effective means of storing their wealth than wheat and copper, and these commodities would return to the market.

The recommendation was adopted and the United States Treasury offered to provide the gold. As it was prohibited by law from exporting coin, it shipped instead quantities of gold bars, and these were put on sale along with gold of various coinages held by the Iranian national bank. The success of the operation was limited by the fact that the market for gold bars, since they were expensive, was restricted; nevertheless, it proved sufficiently effective and it was extended throughout the Middle East War Theatre.

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Similar testimony to the importance of good silver money in the maintenance of economic and political stability among the vast populations of Asia and

Africa is afforded by John Leighton Stuart, for over forty years a missionary in China and ambassador to China during the Nationalist-Communist war of 1946-1949. The United States Government was supporting the Nationalists with arms, munitions, and gold, but the authorities were keeping the gold impounded in Taiwan, and issuing against it notes termed *Gold Yuan.* In his recollection of these events Stuart commented:

"More crucial than strategy were silver coins with which to pay the troops. They did not want Gold Yuan, but four silver dollars per month apiece—two U.S. dollars—or even two of these would sustain their morale. Otherwise, Communist agents could buy them off with hard money or even promises. The government had nearly 300 million U.S. dollars in gold and silver bullion, but most of this was safely in Taiwan."