

December 16, 1941.

Dear Henry:

Donald Nelson wrote to me on December 3 for my official opinion regarding gold mining equipment for foreign mines and indicated in his letter that he had also addressed a similar communication to you asking for your views.

I have given him a frank expression of my own opinion and I am sending you a copy for your information.

Sincerely yours,

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

enclosure

 ET:b

December 16, 1941.

Mr. Donald M. Nelson,
Executive Director,
Supply Priorities and
Allocation Board,
Social Security Building,
Washington, D. C.

My dear Mr. Nelson:

This is to acknowledge your letter of December 3 asking for my official opinion regarding gold mining equipment for foreign mines and possible measures to avoid a dollar deficit if foreign gold production is curtailed.

Priority measures tending to reduce new gold production under present circumstances are, in my judgment, highly desirable. The United States stock of gold is already redundant. Its dollar value is more than five times as great as in the 1920's. From the standpoint of credit control in this country further additions to gold stock are not only unnecessary; they are harmful. By swelling excess bank reserves, they add to inflationary dangers and make the maintenance of a stable and productive economy more difficult. From the standpoint of war output of the allied countries, the materials, machinery, and labor devoted to gold production are largely wasted.

The need for continued gold production to obtain dollar exchange will probably be greatly reduced in 1942. Among the allied nations the most important gold producers are those of the sterling area, Canada, and the U.S.S.R. The official British data on the balance of payments of the sterling area, which includes the Union of South Africa and Australia, indicate that the serious shortage of dollars experienced by this area in the past has now been relieved. The bulk of current transactions which require dollars are being handled under Lend-Lease. The sale of newly produced gold from this area to the United States in the last half-year has served principally to reduce the obligations incurred by the British Supply Council prior to the passage of the Lend-Lease Act. Remaining obligations incurred prior to Lend-Lease can be repaid in full during the coming year, according to the British estimates, after which time the sterling area balance of payments should be such as to enable the British to accumulate reserves of dollar balances or gold.

In the case of Canada, the Hyde Park agreement of April, 1941 has gone a long way to overcome the Canadian deficit of U. S. dollars and the operations of the newly constituted Joint Committee on Defense Production, which will extend the principle of the Hyde Park agreement

pooling the productive armament resources of the two countries, may be expected to carry this process still further. Shipments of goods to the U.S.S.R. are largely such as can be handled under Lend-Lease and R.F.C. loans. Accordingly, it is neither necessary nor desirable to encourage allied gold production in order to provide dollar exchange for war needs.

Even if gold production abroad were so sharply curtailed as to bring about a deficiency of dollars, the situation could be met more appropriately by extension of the principles of the Lend-Lease and Hyde Park arrangements, by further R.F.C. and Stabilization Fund loans, or by employment of the resources of the Federal Reserve Banks. Purchase of gold in the ground by the United States, however, would offer too many complications in practice to make experimentation with it advisable when simpler and more direct methods are available.

Since new gold output is largely unnecessary and diverts materials, machinery, and labor from production of war supplies, I strongly favor curtailing it so far as is practicable through the priorities system. I would suggest that no machinery be allowed to foreign mines for the expansion of gold output; and that machinery and supplies for the maintenance and repair of gold mines should be restricted to the minimum consonant with the principles adopted by the Supply Priorities and Allocations Board for other non-defense industries.

The effect of these measures could, it is true, be nullified if the foreign countries that are denied gold mining machinery from the United States should undertake to produce it for themselves. Not only might they thereby retain in the gold industry all the factors now engaged in it, but they might, because of less efficient methods, have to divert more resources to making gold mining machinery than the United States would save by stopping its manufacture. This would retard the total war effort. Therefore, I believe it is advisable for the Supply Priorities and Allocation Board and other interested government departments and agencies to enlist the cooperation of the foreign governments concerned. In fact, the foreign governments might be encouraged to go farther than merely to restrain their own producers of gold mining machinery. It would seem appropriate for them to take more far-reaching measures to transfer labor and other resources from gold mining to the production of war supplies that now they must procure from us. If, in the process, relief had to be afforded to some elements in the gold mining industry abroad, such relief could better be extended by the governments immediately concerned than by the United States. In order to obtain such cooperation, however, it may be necessary to convince our allies abroad that we were dealing as firmly with our own gold industry as we are asking them to deal with theirs.

Mr. Donald M. Nelson

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December 16, 1941

In making these suggestions, I have spoken frankly, believing that such was your desire. While I have no reason to think that other members of the Board differ with the views here stated, they are not, of course, committed by this letter.

Sincerely yours,

(signed) M. S. Eccles.

M. S. Eccles,
Chairman.

WRG:ET:b



THE SECRETARY OF THE TREASURY
WASHINGTON

December 20, 1941

Dear Marriner:

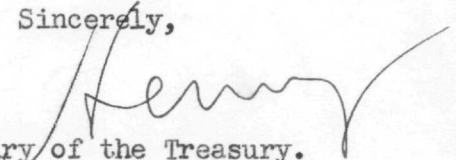
Thank you for sending me a copy of your letter of December 16 to Mr. Nelson.

I am enclosing a copy of my reply to a similar inquiry Mr. Nelson made to the Treasury and a copy of my letter to the Minister of the Union of South Africa dealing with a similar matter. These two letters indicate the attitude of the Treasury toward the problem raised in Mr. Nelson's letter.

I judge from your letter that, on the whole, we are in substantial agreement as to what the Government policy should be toward use of short materials for gold mining during the emergency period, except that I should place more emphasis on the desirability of examining the particular situation in each country before applying the general principle. As indicated in my letter to Mr. Nelson, we have made such an examination in the South African case and we are proceeding with one in the Canadian case.

Should our examination of any particular case seem to warrant our recommendation that export of machinery for gold mining be given a high priority, I have instructed Mr. White to discuss the matter with anyone in your organization you would care to designate before such recommendation here is made.

Sincerely,


Secretary of the Treasury.

Hon. Marriner S. Eccles,
Chairman, Board of Governors of the
Federal Reserve System,
Washington, D. C.

Enclosures

FOR DEFENSE



BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

COPY--

Dec. 15, 1941.

My dear Mr. Nelson:

This is in reply to your letter of December 3, 1941, asking for our official opinion concerning the supply of gold-mining equipment abroad, and for our opinion on the possibility of purchasing gold for post-war delivery to ease the dollar position of certain countries.

It is our opinion that because of the scarcity of raw materials, an export of machinery to be used for gold mining is hardly justified except where special conditions surrounding a particular case make a maintenance or increase in gold production desirable. Such a special case might exist when a relatively small amount of steel and machinery would yield substantial output of gold, and when, further, there was danger of a shortage of dollar exchange during the ensuing year; and when, moreover, there was not better means of helping those countries to obtain the needed dollar exchange. Political considerations would in some cases also have to be an element in the general evaluation. It is clear from the above that each application would have to be considered on its individual merits before any preference ratings on exports of mining machinery should be granted.

The Treasury has already received a request from the Canadian Government and the South African Government for our assistance in obtaining priorities on gold-mining machinery. I am enclosing for your information our reply to Mr. Glose, the South African Minister, which indicates our position in that specific case. We are still studying the Canadian case.

I think it would be helpful if we could be informed as a routine matter of any request that comes to you for any gold-mining machinery for export. We could then send you our opinion as to whether or not the particular country making the request is in need of dollar exchange for the prosecution of the war, and whether an increase in gold production is the best method of supplying the needed exchange. I presume that the State Department would be the appropriate agency to pass on the importance of the political considerations that might apply in any given case.

It should be clear that the above opinions refer only to mining machinery for export. Domestic gold production in war-time serves no military purpose, but does consume labor and materials that have usefulness in military production, particularly in the mining of scarce metals. We do not believe, therefore, that domestic gold mines should receive any preference rating for machinery unless the gold is produced with a substantial amount of much needed by-product metals or ores, or unless it is produced in a mine so peculiarly situated that serious and sustained unemployment of men not eligible for defense jobs would result from its shutdown.

I refer now to your question on the possibility of supplying dollars by the purchase of gold "in the ground" for post-war delivery.

The Treasury, as you probably know, has recently purchased gold for future delivery and stands ready to undertake such transactions where the conditions indicate such action to be desirable. However, I do not feel that the Treasury would be warranted in purchasing gold for delivery at so uncertain a date as post-war. So far as we know, there has been no instance in which a country has needed goods for the common war effort, that has not been able to find ways of financing those purchases with United States' assistance.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Donald M. Nelson,
Executive Director,
Supply Priorities and Allocation Board,
Social Security Building,
Washington, D. C.

Enclosure

December 15, 1941.

My dear Mr. Minister:

The Treasury Department has been considering the questions relating to steel mills and steel plates for gold mines which you laid before us. I regret the delay in answering your request, but the problems you raise are new and have required a good deal of discussion with other departments as well as study inside the Treasury.

The decision regarding priority for steel mills and steel rolling mills for the Government of South Africa lies outside the province of the Treasury.

The decision regarding priorities for articles in short supply in the U.S. and needed for South African gold mines is, however, a matter in which the Treasury along with several other departments has an interest. That interest derives from the Treasury's responsibility for foreign exchange. At a recent meeting of representatives of departments interested in the question of priorities for gold mining, the consensus was that in the case of foreign gold mines, high preference ratings for equipment and supplies should be given only in special circumstances -- such as a difficult foreign exchange position. If the Treasury obtains information that there is, or is likely to be, a deficit or acute shortage of dollar exchange assets of South Africa, or the British Empire, and that the application of U.S. priorities is likely to result in a serious reduction of the output of gold, and therefore in a worsening of the dollar exchange position of the British Empire or of South Africa, the Treasury will be glad to assist on this problem.

Unfortunately the material which you have given us does not contain data on the above points. If this government is to allocate to foreign gold mines materials urgently needed for war purposes because of the exchange position of foreign countries, it will be necessary for the Treasury to have detailed data on the present foreign exchange position, and the prospective balance of payments of the country or countries concerned. We would also require -- as would the other departments concerned -- detailed estimates of the probable reduction in gold output if the materials request should not be forthcoming.

In the meantime, however, we feel that the decision respecting the granting of priorities for steel to South Africa will have to be determined by the Priorities Committee on its merits independent of the gold (or dollar) assets of the British Empire and South Africa.

I hope you will understand that this decision is in no way evidence of a lack of cooperation on the part of the Treasury or a lack of desire to assist whenever and wherever it appropriately can. We shall be glad at any time to receive further communications and information from you which would indicate the danger or imminence of a shortage of necessary dollar exchange.

Very sincerely yours,

(Sgd.) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Ralph W. Close,
Envoy Extraordinary and Plenipotentiary
of the Union of South Africa,
South African Legation,
Washington, D. C.

January 5, 1942.

Dear Henry:

As I have been out of town, I have not thanked you before for your letter of December 20 enclosing a copy of your letter of December 15 to Donald Nelson, as well as the copy of your letter to the Minister of the Union of South Africa, both dealing with the problem of priorities for gold mining equipment. I am gratified to find that you and I are in substantial agreement as to what Government policy should be.

I appreciate your instruction to Mr. White to discuss any particular case that may arise with someone whom I designate from this office. In accordance with your suggestion, I have designated Dr. Goldenweiser.

Sincerely yours,

(Signed) M. S. Eccles

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

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