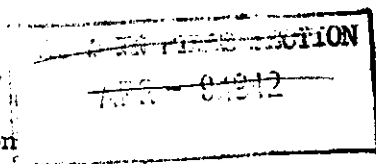


BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

March 5, 1942.

To - Mr. Gardner
From - Mr. Thurston



Herewith the Vandenberg letter. I agree that we should first ascertain what agreements there are, other than the one with Mexico, for the purchase of foreign silver and check with the Treasury to find out whether they have had a similar inquiry from the Senator and, if possible, get a copy of their reply.

E.T.

FOR FILES
Walter R. Gardner

KEY PITTMAN, NEV., CHAIRMAN

PAT HARRISON, MISS.
WALTER F. GEORGE, GA.
ROBERT F. WAGNER, N. Y.
TOM CONNALLY, TEX.
ELBERT D. THOMAS, UTAH
FREDERICK VAN NUYS, IND.
JAMES E. MURRAY, MONT.
LEWIS B. SCHWELLENBACH, WASH.
MAUDE PEPPER, FLA.
EDDIE FRANCIS GREEN, R. I.
BEN W. BARKLEY, KY.
ROBERT R. REYNOLDS, N. C.
JOSEPH F. GUFFEY, PA.
GUY M. GILLETTE, IOWA
BENNETT CHAMP CLARK, MO.

HIRAM W. JOHNSON, CALIF.
ARTHUR CAPPER, KANS.
ROBERT M. LA FOLLETTE, JR., WIS.
ARTHUR H. VANDENBERG, MICH.
WALLACE H. WHITE, JR., MAINE
HENRIK SHIPSTEAD, MINN.
GERALD P. NYE, N. DAK.

United States Senate

COMMITTEE ON FOREIGN RELATIONS

EDWARD J. TRENWITH, CLERK
JAMES A. WHITE, ASST. CLERK

March 3, 1942.

Honorable Marriner S. Eccles
Federal Reserve Board
Washington, D. C.

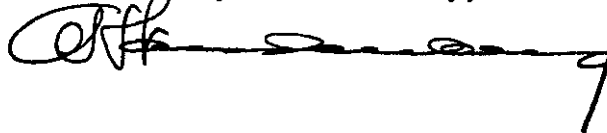
My dear Mr. Eccles:

I am wondering whether you would care to express an opinion to me regarding the repeal, in whole or in part, of the present silver purchase legislation? Particularly in view of the fact that war industries may need to purchase silver in substantially increasing quantities - while the Treasury is prohibited from selling any of its silver supply to meet increasing industrial demands - I am wondering whether this is not an appropriate time to review the subject? Furthermore, it would now seem to be indisputably clear that silver stocks can never reach 25% of our total metallic monetary stocks - as required by statute - or that the price of silver can be forced upward to its monetary value of \$1.29 per ounce. Some consideration, also, would seem to be warranted in connection with the fact that the silver purchase program is potentially inflationary - at a time when we are presumed to be at war with every inflationary impulse.

I should welcome a letter from you on the subject if you feel free to give me the benefit of your judgment as to whether the silver purchase program should be repealed in its entirety or whether it should be partially reconsidered.

With warm personal regards and best wishes,

Cordially and faithfully,



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

March 30, 1942.

To: Chairman Eccles
From: Mr. Thurston

At long last I have retrieved from Walter Gardner the Vandenberg letter, which I referred to him and for which I have pestered him and Goldenweiser steadily for weeks. Walter's reply is attached, but I think it overlong and not directly responsive to Vandenberg's inquiry. However, it is one of Walter's highly competent reviews of the silver situation and you may want to read it. If you were going to testify, it would be useful, but I would not volunteer to Vandenberg any more than is in the reply which I have drafted.

E.T.


March 30, 1942.

Honorable Arthur H. Vandenberg,
United States Senate,
Washington, D. C.

My dear Senator Vandenberg:

Because of the many wartime pressures here and also the need to review the silver situation particularly in relation to such agreements as the Government has made or is making with allied and associated governments, this reply to your letter of March 3 has been delayed.

My own views are generally in accord with those expressed by the Secretary of the Treasury at a press conference last month when he was quoted as favoring repeal of the silver purchase legislation and as advocating the sale to industry of the silver accumulated by the Treasury during the past seven years. Likewise, I feel that the points you mention in your letter to me are important ones justifying reconsideration of the silver purchase program at this time with a view to its repeal. I have had no reason to change my own views, which I have publicly expressed for a number of years. I stated before the Special Silver Committee and later before a Banking and Currency Subcommittee of the Senate in 1939 that "I did not know of anything that tended to destroy ultimately the domestic silver industry as thoroughly as the present silver program."

In view of the war situation, it is all the more urgent that the inflationary effects of the silver program be removed and that so far as possible the materials, machinery and labor now devoted to silver production be utilized in the war effort.

With kindest personal regards,

Sincerely yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.

ET:b

Elliott Thurston:-

Here is the
~~signed~~ letter. You can see
why it took so long. I think
it's O.K., ~~if so~~ if the Chairman
wants to say all that I think
it could also be reduced
to a page or so.

Elliott

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 28, 1942To Mr. Thurston

Subject: _____

From Walter R. Gardner *WRG*

Here at last is a draft reply to the Vandenberg letter. I felt it was better to leave it in draft form so that you and Mr. Goldenweiser could mark it up.

The Treasury apparently did not receive a similar letter, but I gather that they are prepared to go the whole way in eliminating the silver program. Mr. Southard, Assistant Director of the Division of Monetary Research, indicated in conversation that this was the case and recent testimony and press comments by Secretary Morgenthau fully bear this out. I attach a clipping from the Wall Street Journal covering one of his press conferences. Will you let me have it back? We should also like to see the draft before it is finally typed up. There is a statement of fact in it that may need to be changed.

Attachments 3

DRAFT (3-28-42)

Honorable Arthur H. Vandenberg
United States Senate
Washington, D. C.

Dear Senator Vandenberg:

Your letter of March 3, 1942, requesting my judgment as to whether the silver purchase program should be repealed in its entirety or whether it should be partially reconsidered, has been given my earnest consideration. The question is obviously one of considerable complexity, but I should be glad to venture a statement of the general principles which I believe should now govern silver policy.

I would still subscribe to the recommendations on silver policy contained in the Special Report submitted to Congress on December 31, 1940, by the Board of Governors, the Presidents of the Reserve Banks, and the Federal Advisory Council. This Report called for the discontinuance of further monetization of foreign silver, and for the abolition of the power to issue silver certificates against the seigniorage on previous purchases of silver. In view of the present magnitude and urgency of our war effort, however, I believe that these measures, which aimed at removing some of the inflationary aspects of the silver purchase program, are no longer enough. The materials, machinery, and labor now devoted to silver production in the United Nations make no essential contribution to the war effort. The supply of unused silver bullion in the Treasury is ample to meet the current needs of industry. Therefore, I consider that it is desirable in principle to transfer to other more immediately useful occupations the productive resources engaged in silver mining.

A reduction in the price of silver would contribute to that end. It would discourage silver production and stimulate use of the existing supply in place of scarce metals. I understand that substitution of silver for base metals in short supply is already taking place because of priority and allocation restrictions; but low-cost silver would greatly extend the range within which such substitution is commercially feasible.

At the present time, domestic silver production is sold to the Treasury at 71.11 cents per fine ounce, while most silver imports are being disposed of to industrial consumers in the open market at a small premium over the Treasury's 35 cent buying price for foreign silver. Rapidly increasing industrial demand for the foreign supply now threatens to drive the market price upward. Clearly, however, it could be reduced to almost any desired level if the Treasury were permitted to dispose of the one and one-third billion ounces of the metal which it holds in excess of what is needed to cover outstanding silver certificates. In order to avoid misunderstanding in foreign countries cooperating with us, the same treatment should in principle be accorded to both domestic and foreign silver producers -- i.e. domestic silver output should be sold at the prevailing price in the open market along with foreign silver.

Within the framework of this general program, no doubt cases would arise requiring special treatment. Relief measures would be appropriate where the labor force of silver mines could not be given more useful employment elsewhere without the disruption of local communities and undue attendant hardships. This relief might take the form of a subsidized price for the output of these particular mines.

A more important problem would be posed by mines producing copper and other needed metals in combination with silver. Some of these mines may be so dependent upon the subsidized price for their silver by-product that without it they would close down. This would diminish rather than increase production of base metals. In such cases, however, mining of these metals might be given direct subsidies, which not only would keep the mines in operation but also would provide the maximum incentive to shift production toward mines or ore bodies with a lower silver and a higher base metal content. Mines that do not require a subsidy would nevertheless be under a similar incentive to shift away from the less profitable silver.

There is also a dollar exchange problem to consider. This country's purchases of foreign silver have been one means by which, as a matter of national interest, we have put dollar exchange in the hands of friendly countries. The Treasury Department has silver purchase agreements with Mexico and Canada, while the Metals Reserve Corporation is purchasing the silver output of various Latin American countries. Any loss of dollar receipts to these countries, however, as a result of lower silver prices could be compensated by additional dollar exchange made available to them in other ways. Among these ways, I would recommend consideration of supplementary purchases from such countries of scarce raw materials -- probably base metals -- which cannot be produced profitably at present market prices. This supplementary high-cost production would have to be acquired at prices higher -- perhaps much higher --

Honorable Arthur H. Vandenberg -4-

than current market prices, but at least for part of our dollar disbursements, we would receive badly needed raw materials rather than an unnecessary increment of silver. Care would have to be taken to avoid paying such prices to the high-cost enterprises as would enable them to attract productive resources from low-cost mines. Cooperation of the local governments might be essential to secure an orderly transfer of silver miners and silver mining equipment to the supplementary production of base metals or ~~of~~ other commodities covered by the program.

On the side of demand for silver, certain special cases might also be distinguished. Since there is no reason to encourage consumption of silver by manufacturers of jewelry and silverware, the reduction in the cost of the silver content of such articles might be offset by excise taxes on their production. On the other hand, in some cases -- particularly those closely connected with war production -- the Treasury might find it desirable to offer silver even more cheaply than the reduced market price in order to encourage its substitution for materials in short supply.

I have written to you frankly and at some length as I felt you would wish me to do. Much of the problem lies outside the financial field and I have touched upon these aspects only because they appeared necessary to consideration of the problem as a whole. Before taking a formal position I should want an opportunity to review some of the questions more fully than I have been able to do at this time. You will, I am sure, appreciate that this is a personal letter and one that does not necessarily reflect the views of the Board of Governors of the Federal Reserve System.

TOM CONNALLY, TEX., CHAIRMAN
WALTER F. GEORGE, GA.
ROBERT F. WAGNER, N. Y.
ELBERT D. THOMAS, UTAH
FREDERICK VAN NUYS, IND.
JAMES E. MURRAY, MONT.
CLAUDE PEPPER, FLA.
THEODORE FRANCIS GREEN, R. I.
ALBEN W. BARKLEY, KY.
ROBERT R. REYNOLDS, N. C.
JOSEPH F. GUFFEY, PA.
JOY M. GILLETTE, IOWA
BENNETT CHAMP CLARK, MO.
CARTER GLASS, VA.
JOSH LEE, OKLA.
JAMES M. TUNNELL, DEL.

HIRAM W. JOHNSON, CALIF.
ARTHUR CAPPER, KANS.
ROBERT M. LA FOLLETTE, JR., WIS.
ARTHUR H. VANDENBERG, MICH.
WALLACE H. WHITE, JR., MAINE
HENRIK SHIPSTEAD, MINN.
GERALD P. NYE, N. DAK.

RAYMOND BARNETT, CLERK

United States Senate

COMMITTEE ON FOREIGN RELATIONS

April 1, 1942.

Honorable M. S. Eccles,
Chairman, Board of Governors,
Federal Reserve System,
Washington, D. C.

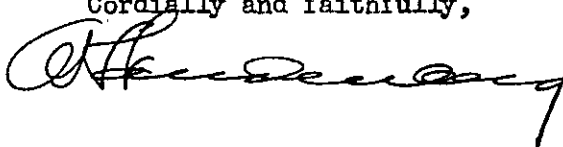
My dear Mr. Eccles:

I am deeply grateful to you for your forthright letter of March 30th in response to my inquiry of March 3rd regarding the silver purchase program.

I deeply appreciate the candor with which you have spoken.

With warm personal regards and best wishes,

Cordially and faithfully,



R