

Form F. R. 511

TO Gov. Eccles

FROM

REMARKS:

Attached is a memorandum, prepared at my request under Burke Knapp's direction, that you may be interested in having, to bring you up to date on the silver picture.

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CHAIRMAN'S OFFICE

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

C Chairman Eccles

From Mary Maroney

*Mm*

Date September 9, 1943

Subject: Silver

The attached memorandum is in response to your request  
for information on recent developments in silver.

## SILVER DEVELOPMENTS IN UNITED STATES 1941-1943

The war has effected a complete reversal in the supply position of silver. The industrial demand for it as a substitute for the scarcer metals, aluminum, copper, nickel, and tin, has overshadowed its monetary aspect and the huge stocks accumulated by the Treasury under the Silver Purchase Act and the domestic silver subsidy program are now found to have some useful purposes.

Shortly after the outbreak of war in Europe the Governments of Great Britain and India imposed controls on the movement of silver, particularly imports. The United States market was thus insulated from these customarily active centers of speculation and hoarding and was affected only by increasing industrial demand. Consumption in both civilian and war industry rose but it was not until the end of 1941 that the market showed any tendency to take stock of a growing shortage of supplies. On November 19, 1941, the United States Treasury as part of an over-all program of mutual cooperation between the Governments of the United States and Mexico concluded an agreement to purchase directly six million ounces of silver a month from Mexico. (No change was made in the Treasury's buying price for foreign silver which had remained at 35 cents since July 10, 1939.) This action, intended only as a gesture of goodwill, suggested to the market that the industrial supply was to be deprived of six million ounces a month which otherwise would have gone into consumptive channels. This supply, it should be noted, was constituted wholly of foreign silver which was available to consumers at 35 cents an ounce as compared with the price of 71.11 cents which the Treasury pays under the terms of the silver subsidy legislation for

domestic silver.

To retain control of Mexican silver against the Treasury's offer, the market price was raised to 35-3/8 cents and Mexican silver continued to go into consumptive channels. In the spring of 1942, however, the increasing demand was instrumental in persuading some consumers to go to Mexico to buy in order to escape the informal rationing of supplies which was being enforced by bullion dealers here. This action in turn was followed by the licensing of imports for essential purposes by the War Production Board and the application of price controls by the Office of Price Administration. In August 1942, the Office of Price Administration lifted the ceiling price for foreign silver to 45 cents. This temporarily eased the situation by bringing into the market silver which had been withheld in anticipation of higher prices.

Meanwhile the War Production Board had begun to restrict the use of foreign silver to priority needs. The Treasury also had taken cognizance of the growing scarcity by leasing to the Defense Plant Corporation its "free", i.e., unmonetized silver bullion for nonconsumptive purposes and by agreeing to the postponement of deliveries on its current purchases of domestically mined silver. The release of Treasury silver for industrial uses has been carried still further in 1943 by the enactment of the Green Act which permits the sale of the Treasury's free silver at 71.11 cents an ounce for certain consumptive purposes approved by the War Production Board and the use for nonconsumptive purposes of the monetized bullion, i.e., the metallic cover for silver certificates.

The Treasury stocks made available by the Green Act appear to be far in excess of the probable consumption notwithstanding the fact that the latter has risen rapidly in the last year and a half. Consumption in 1942,

including coinage requirements, is estimated at 194 million ounces as compared with 135 million ounces in 1941, while estimates prepared by the War Production Board in April of this year place the maximum consumption in 1943 at 270 million ounces. On July 12, 1943, when the Green Bill was enacted, the Treasury stocks included 1,525 million ounces held as security for silver certificates and 1,252 million ounces of "free" silver in the General Fund. Of the latter amount 700 million ounces had already been transferred to the Defense Plant Corporation in accordance with the agreement of May 6, 1942, but if the need arose this amount could now be charged against the monetized bullion thereby releasing for sale an equivalent amount of "free" silver.

Within recent months the factor of increasing foreign demand has become more prominent. On July 2, 1943 the arrival in the United Kingdom of 3 million ounces of silver from the United States was announced. The silver came from the Treasury's "free" stock under a Lend-Lease arrangement. Although no other transactions of the nature have been disclosed it is assumed that future withdrawals are quite likely in view of Secretary Morgenthau's statement of last December that Treasury "free" silver would be loaned to friendly foreign powers provided that such nations agree to return it ounce for ounce after the war. On August 17, 1943, the Finance Minister of Mexico, Senor Eduardo Suarez announced that increased coinage and industrial demands in Mexico necessitated the suspension of shipments to this country until April 1944. According to press reports, part of the increased industrial demand in Mexico stems from a shortage of silverware here. Our manufacturers who are working on non-war orders are not allowed access to

foreign supplies or to the Treasury "free" silver; they are permitted to use newly mined domestic silver only to the extent of fifty per cent of their normal consumption in 1941 or 1942, whichever is larger. As a result of this situation some of our large retailers, unable to meet expanded consumption with the amount of non-priority articles permitted to be produced, have been placing orders for hollow ware and costume jewelry in Mexico. Confirmation of this development is to be found in reports from manufacturers here that they have received offers from Mexican producers to purchase idle machinery and equipment. The Mexican Government has recently imposed a tax of 8.41 pesos per kilogram (approximately \$1.75) on the export of silverware and jewelry. Formerly these items had enjoyed free export. The increased coinage is attributed to hoarding by the public as well as the melting down of coin by speculators who have been realizing more from the silver content than from the nominal value of the coin.

At the time of the passage of the Green Bill, Representative Celler served notice that upon the reconvening of Congress he expected to press for the repeal of the Silver Purchase Act. He has a bill to that effect on the House calendar. In the present situation it does not appear that there is much ground for criticizing the policy since it has had some fortuitous results. It is to be noted, however, that the difficult price relationships of foreign and domestic silver have not been particularly changed -- foreign silver being acquired at 45 cents and domestic silver at 71.11 cents an ounce. Since all the Treasury's stock which is being sold for industrial consumption is being turned over at the latter level, industry, in large measure, is adapting itself to the price which, in pre-war years was definitely uneconomic.

Meanwhile there is a very good prospect that a considerable portion of our "surplus" silver will be used up.

A calendar of events and pertinent tables are attached.

Calendar of Silver Developments in United States under War Conditions

	<u>Foreign Silver</u>	<u>Domestic Silver</u>
November 28, 1941	<u>Market price increased 3/8 cent to 35-3/8 cents to divert Mexican production from U. S. Treasury, which on November 19, 1941, agreed to purchase 6 million ounces monthly at 35 cents an ounce.</u>	
May 6, 1942	<u>Bullion dealers ration sales for all purposes other than war and essential manufactures, as demand exceeds imports.</u>	<u>U. S. bans silver exports to Europe. Unannounced embargo on shipments to Spain, Portugal, Switzerland, Sweden, Vichy-France, Turkey, and French Africa, in order to keep metal from Axis industry.</u>
May 6, 1942		<u>Treasury leases "free silver" stocks to Defense Plant Corporation, placing at its disposal 1.4 billion ounces for non-consumptive war uses.</u>
May 11 & 18, 1942	<u>O. P. A. freezes market price at 35-3/8 cents. Ceiling applied to transactions in bullion and semi-fabricated products beginning May 11; to articles sold at retail beginning May 18.</u>	
July 21, 1942	<u>W. P. B. makes imports subject to license to prevent purchases in Mexico by private manufacturers at prices in excess of U. S. ceiling of 35-3/8 cents.</u>	
July 29, 1942	<u>Effective October 1, W. P. B. prohibits use of silver in all manufactures not bearing a priority rating of A-3 or higher, in order to conserve stocks.</u>	
August 4, 1942		<u>Treasury permits postponement of deliveries of newly mined silver for which it holds contracts, in order to divert supplies to market for non-priority manufactures.</u>

Foreign Silver

August 5, 1942

O. P. A. applies ceiling of 35-3/8 cents to all imports to discourage speculative withholding by foreigners in anticipation of higher prices.

August 28, 1942

O. P. A. fixes price for newly mined domestic silver at 71.11 cents plus transportation charges. The inclusion of the latter gives market buying price advantage over Treasury buying price.

August 29, 1942

O. P. A. permits sellers of semi-fabricated products to increase price 36-1/8 cents to 71.11 cents, thereby passing along to customers the increased cost of the use of newly mined domestic in place of foreign silver.

August 31, 1942

O. P. A. lifts price 9-5/8 cents to 45 cents after Governments of the United States and Mexico agree on such price for imports into this country.

September 15, 1942

Growing tightness in supplies increased by two factors: (1) intimation by W. P. B. that war needs might necessitate conservation controls; (2) intimation by Senator McCarran that he planned to introduce legislation that would increase price from \$.71.11 to \$1.29 an ounce. Rationing of supply by dealers.

September 17, 1942

Sale of silver from Treasury stock. 5 million ounces of silver "ordinary", i.e., silver which was not acquired under monetary legislation, offered for sale at 45 cents for use in war production.

	<u>Foreign Silver</u>	<u>Domestic Silver</u>
November-December 1942	<u>Metals Reserve Corporation stockpiles silver to take up strong reversal in supplies brought out by 45 cent price.</u>	
December 14, 1942		<u>Secretary of Treasury announces that the U. S. will lend-lease silver to friendly foreign powers for return after the war on an ounce-for-ounce basis.</u>
February 23, 1943		<u>W. P. B. cuts non-essential manufactures by 50 per cent in an order limiting the amount of domestic silver available for such products to one-half the amount consumed in 1941 or 1942, whichever is larger.</u>
March 23, 1943		<u>O. P. A. permits increase of 36 cents to 71.11 in price of finished articles manufactured from newly mined silver. Order includes 12 specified lines of silverware.</u>
July 2, 1943		<u>Treasury lend-leases silver to United Kingdom—Announcement of arrival in United Kingdom of 3 million ounces from Treasury's stock of "free" silver, to be returned ounce for ounce at end of war.</u>
July 12, 1943		<u>Enactment of Green Bill, making available to consumers approved by the War Production Board the "free" silver stocks of the Treasury at 71.11 cents an ounce and liberating for non-consumptive uses the stock of monetary silver, i.e., the metallic cover of silver certificates.</u>

Foreign Silver

July 29, 1943

W. P. B. restricts use of foreign silver to manufacture of items bearing preference rating of AA-5 or higher as result of greatly curtailed imports.

August 9, 1943

Domestic Silver

W. P. B. restricts the use of Treasury silver made available by Green Act to the manufacture of engine bearings, official military insignia, brazing alloys, and solders.

August 13, 1943

W. P. B. requires inventory reports of foreign silver from manufacturers whose stocks of metal have been rendered idle by W. P. B. orders restricting use; silver to be moved into essential permitted use.

August 17, 1943

Announcement that shipments from Mexico will be suspended until April 1944 in order to meet increased coinage and industrial demands in Mexico.

September 6, 1943

W. P. B. prohibits use of foreign silver in manufacture of brazing alloys or solders.

I. War Production Board Estimates of April 28, 1943

(Millions of ounces)

Supply:

Domestic Production	45
Imports	70
Total	<u>115</u>
Estimated receipts from scrap, Metals Reserve Company stocks, and reserves of "silver ordinary"	47
Total	<u>162</u>

Consumption:

Essential	139
Non-essential	30
Total	<u>169</u>
Potential additional consumption:	
Essential	40-50
Foreign industrial and coinage requirements	40-50
Total	<u>249-269</u>

II. Domestic Production

(Millions of ounces)

<u>Period</u>	<u>1942</u>	<u>1943</u>
January-June	30	21
July-December	<u>25</u>	
Total	55	

## III.

## United States Silver Imports

(Millions of ounces)

Period	Imported from:					
	Canada	Mexico	Peru	Other Latin America	All Other	Total
1942 - January - June July - December	7	38	8	4	3	60
	7	32	3	3	3	48
Total	14	70	11	7	6	108
1943 - January - June	5	20	6	9	2	42

## IV.

## Components of United States Silver Stock

(Millions of ounces and dollars)

	December 31, 1941		July 31, 1943	
	Ounces	Dollars	Ounces	Dollars
Silver coin in circulation outside Treasury	403	557	524	720
Silver held in Treasury:				
Against silver certificates	1,516	1,960	1,520	1,966
In General Fund:				
Subsidiary coin	3	4	26	36
Bullion at cost	1,353	*662	**1,250	*590

\* At cost value

\*\* 700 million ounces of this amount held by Defense Plant Corporation.

V.

Silver Acquired by Mints and Assay Offices

(Millions of ounces)

Period	Newly mined domestic	Foreign
1942 - January - June	28	14
July - December	20	—
Total	48	14
1943 - January - June	5	—