July 26

Mr. Katz --

Herewith the information Mr. Martin would like to have re the "gold standard". Thanks very much for your help.

For England - he asked only when they went on the single standard--but I think a brief summary of "why" would be helpful.

For the United States --

1. When did we go on the gold standard (1873?)

2. Who was President at the time?

3. Gist of any public announcements made.

4. Summary of the historical period.

5. A good "reference" to the history of the gold standard period which Mr. Martin could read.

And that should do it.

I am sending along the books the R & S Library sent to me.

Margaret Muehlhaus

From the desk of

WILLIAM McCHESNEY MARTIN, JR.

By Messenger July 29, 1957.

Senator Robertson--

Herewith a statement prepared in our International Division which might be of interest to you in connection with our telephone conversation this morning.

WMM

Attachment

Gold inflow and outflow and adequacy of our present gold supply.

(1) At the end of 1946, the total U. S. gold stock (the gold stock of the U. S. Treasury plus gold in the Exchange Stabilization Fund) amounted to $20,706 million. In the following years, there was an inflow totaling $4,065 million (net after payment in 1947 of $688 million in gold as the U. S. gold subscription to the International Monetary Fund) so that by the end of August 1949 the gold stock reached an all-time peak of $24,771 million. An outflow of $2,844 million reduced the gold stock to $21,927 million by the end of the first quarter of 1951; an inflow of $1,606 million raised it again to $23,533 million at the end of the second quarter of 1952; a renewed outflow of $1,803 million lowered it to $21,730 million by the end of the second quarter of 1955; and a renewed inflow of $996 million brought it to $22,726 million at the end of May 1957. At present, the U. S. gold stock is therefore about $2 billion higher than at the end of 1946, and about $2 billion lower than at the end of August 1949.

(2) The facts with respect to the adequacy of our present gold supply may be stated both in arithmetical and in economic terms.

The U. S. gold stock is equal to nearly 60 per cent of the estimated gold reserves of the entire free world. Even if the official dollar holdings of foreign countries (about $7.8 billion) are deducted from the U. S. gold stock in view of the willingness of the U. S. Treasury to redeem such balances in gold on demand, the remaining net gold holdings (about $14.9 billion) would represent nearly 40 per cent of the entire gold holdings of the free world. The ratio between U. S. gold holdings (gross or net) to annual U. S. merchandise imports ($12.7 billion in 1956) is much higher than the ratio between gold holdings and imports of any other major country of the free world. Similarly (as mentioned above), the ratio of gold to Federal Reserve liabilities is much higher than the statutory minimum.

From the point of view of economic analysis, however, these arithmetical relationships are not of decisive importance. In the days before the First World War, the United Kingdom acted as banker for virtually the entire world with a gold reserve that amounted to $165 million at the end of 1913. Although such a reserve would be considered woefully inadequate today, the United Kingdom did not then suffer from any balance of payments difficulties because it maintained financial stability and the world had unlimited confidence in the value of the pound sterling. More recently, at the end of 1950, not only did the Federal Republic of Germany have no gold at all, but its foreign exchange holdings of $274 million were exceeded by its foreign exchange liabilities of $432 million, so that its net foreign exchange reserves actually were a negative number. Nevertheless, the country was able to enter into a period of unprecedented expansion of domestic and international economic activity while maintaining financial stability, and by the end of April 1957 it had accumulated $1.8 billion in gold and $2.8 billion in net foreign exchange assets, to achieve the highest gold and dollar reserve of any country of the free world other than the United States. Even a small gold and foreign exchange reserve therefore can prove to be adequate if the country maintains financial stability and inspires domestic and international confidence in the maintenance of the value of its currency. On the other hand, the largest gold reserve can be dissipated within a short time if inflation leads to an excessive rise in imports, a sharp decline in exports, and the flight of capital.

If the United States continues to be reasonably successful in the struggle against inflationary pressure, and thereby maintains confidence at home and abroad in the value of the dollar, the present U. S. gold stock should be fully adequate for its needs. But if the United States were unsuccessful in its fight against inflation, even a much larger gold stock might well turn out to be inadequate.