TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: August 9, 1934.

TO Mr. Eccles

FROM Mr. Edmiston

With regard to Executive Order for nationalization of silver.

Actual Provisions of the Order

This Order requires that all silver except certain holdings which will be listed below shall be delivered to the United States Mints within ninety days after the effective date of the Order, August 9, 1934. The price to be paid shall be at the rate equal to approximately 50¢ a fine troy ounce. The Silver Purchase Act of 1934 requires that all such silver so purchased shall be coined into standard silver dollars or be used as security for silver certificates to an amount equal to at least the actual cost of the silver so purchased. However, the issue of silver dollars or silver certificates may be increased by a seigniorage charge which will accrue to the Secretary of the Treasury in an amount equal to the difference between $1.29 and $.50 per ounce which is paid to the present holders of the silver. Silver falling into the following categories are exempted from the requirements of the Executive Order:

First, silver coins;

Second, silver mined after December 21, 1933, from deposits in the United States;

Third, silver held for industrial, professional, or artistic use not exceeding an aggregate of 500 fine troy ounces belonging to any one person;

Fourth, silver owned by a recognized foreign government or foreign central bank;

Fifth, silver contained in fabricated articles;

Sixth, silver held under licenses issued under this Order as follows:

a. That silver required for legitimate and customary use in industry, profession or art by a person regularly engaged in such occupation;

b. Silver imported for re-exporting or silver to fulfill a delivery contract incurred before effective date of this Order.

Possible Effects of this Order upon Monetary Systems

The effect of this order for nationalization of silver stocks is somewhat similar to the Gold Reserve Act, which provided for a nationalization of all gold stocks in the United States. Whereas at present the Secretary of the Treasury can purchase silver in the open-market and now purchases newly-mined silver at a figure of approximately $.64 an ounce, this Order makes it mandatory that the Secretary of the Treasury purchase all existing silver stocks and requires that all holders of silver present these stocks to the Mints for purchase within the next three months. The ordinary practice will be for the Mints to draw upon the Treasury of the United States checks to the amount of silver received. Thus the present holders of silver will receive these new funds to be used in whatever way that they may choose. It may be that they will be used for purchase of goods and services and to that extent would be directly inflationary. However, they may be simply held as idle balances in the hands of banking institutions and therefore would have no effect upon the security and commodity markets of the country. At least it seems pretty definite that member bank reserve balances would tend to be increased by the amount of new funds which will be put into the hands of the present holders of silver.

The Silver Purchase Act of 1934 requires that all silver bought be either coined or that silver certificates be issued against it. This operation would probably be done by the Secretary of the Treasury, placing the new silver dollars or certificates in the Federal Reserve Banks, where they would be used as required reserves of lawful money or would be placed in circulation, taking the place of the present types of currency which are now in the hands of the public.

However, as the Secretary of the Treasury has the power to take the profit on the silver purchased amounting to the difference between the purchase price and the statutory price on silver, the amount of funds available for disbursement to meet expenses would be increased in an amount depending upon how much silver is presented at the Mints. Thus if these funds were spent, there would be an inflationary effect. However, this is purely at the discretion of the Secretary of the Treasury and would depend upon what policy he chose to follow.

It seems to me that this Executive Order is probably for the purpose of staving off the demands on the part of silver interests throughout the country who are saying that the Government really does not intend to do anything for silver and that the recent legislation was merely to stave off the increasing sentiment for remonetization of silver. Now that this Order makes nationalization of silver stocks mandatory, these requests for action should subside. In other words, this Order is merely a sop to domestic silver producers and present holders of silver stocks. The Price to be paid under the terms of the Order is slightly above the open-market price, which was yesterday $.44 an ounce in New York.

I have just received some estimates of silver stocks from Mr. Lochhead.

In registered depositories	50	million troy ozs.
Wild guess as to amount held outside in U.S.	75	" " "
Total	125	" " "

If these are accurate the nationalization would not have much effect on monetary stocks as the amount involved is only about $62,000,000 directly. Such an increase in silver certificates and member bank reserve balances would be insignificant. The effect upon psychology might be great but what it would be is highly uncertain.