

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 20, 1947

To Chairman Eccles

Subject: _____

From J. Burke Knapp

I met this morning with Mr. Southard (Treasury Department), Mr. Ness (State Department), Mr. Overby and Mr. Luthringer (International Monetary Fund) to discuss the question of the proposed Canadian gold subsidy. Our conclusions were as follows:

1. Unfortunately, the International Monetary Fund appears to have no power to control this sort of operation. In the Fund Articles of Agreement member countries agree not to pay more than the parity price for gold whether of domestic or foreign origin, but the relevant Committee Report of the Bretton Woods Conference states that this clause was not intended to prohibit subsidies on gold production (although this is quite illogical, it is part of the legislative history of the Bretton Woods Agreement). Furthermore, in testimony before the House Banking and Currency Committee, Harry White specifically stated that the United States would be free under the International Fund Agreement to pay subsidies to United States gold producers. Therefore, all that the U. S. Executive Director in the Fund can do is to complain about the generally unsettling effect of the proposed Canadian action upon the general gold situation.

2. It was agreed, however, that this Canadian action would be an abuse of the readiness of the United States to purchase foreign gold and that the United States should therefore take action with Canada directly. We propose the following program of action:

a. Mr. Thorp should call the Canadian Ambassador in Washington to tell him that we are concerned about the proposed Canadian action and that before legislation is presented to the Canadian Parliament we desire to have consultations take place in Washington on the matter. (As usual, the State Department wants to use diplomatic channels instead of having the U. S. Treasury contact the Canadian Treasury directly. However, this should not involve any serious delay.)

b. When these consultations take place, we should ask that the Canadians withdraw their proposal. We should point out that this is an abuse of our gold purchase policy. We should object to their unilateral action at the very time we are engaged in conversations with them concerning their dollar balance of payments problem. We should point out that this proposal would involve the inefficient use of resources for the production of a commodity which is not needed at this time, and we should

To: Chairman Eccles

- 2 -

emphasize the disturbing effect which such action might have upon the gold situation throughout the world.

c. If, as seems likely, the Canadians persist in their proposal, we should

- 1) Make a public statement expressing our disapproval of this and other forms of subsidies to gold production.
- 2) Reach agreement with the Canadians, if possible, on modifications of the proposal, to make it as acceptable as we can.
- 3) Consider the question of whether we should employ sanctions, such as refusing to supply gold mining equipment and supplies to Canada.

We are leaving open the question of just how much pressure we should try to bring to bear upon the Canadians. Unfortunately, they have already announced their proposal and I also understand that domestic politics is involved, since a large part of the gold mining activity is in the Catholic Province of Quebec where the Government's position is very weak.

If you agree in general with the proposed plan of action, please let me know so that I can inform the State Department.