BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 3, 1947

To Chairman Eccles

Subject:

From Mr. Knapp

I shall be engaged in a meeting all morning with the Staff Group on Foreign Interests, but will be available to discuss this matter with you and Governor Szymczak whenever you have time.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 3, 1947

To Chairman Eccles

Subject: Canadian gold subsidy

From Mr. Knapp JHK

SECRET

The National Advisory Council will be asked to give further consideration this afternoon to the problem of the Canadian gold subsidy. Mr. Overby, Mr. Southard, Mr. Ness, and myself met again to discuss this subject yesterday afternoon (see my memorandum of December 1 for further background), and we are proposing the following program of action:

(1) The immediate dispatch of a letter from the Department of State to the Canadian Government expressing our view that the gold subsidy in the form presently proposed is a violation of the Articles of Agreement of the International Monetary Fund since it is tantamount to an increase in the price of gold, and expressing our opposition in principle to any other type of subsidy to gold production. (The Canadian Government is prefectly aware of our views by now, and Mr. Rasminsky, the Canadian Director in the International Fund, has returned to Ottawa to report to them the hostile view in the Fund Board of Directors regarding the present form of the proposed gold subsidy. However, no communication has been received from the Canadian Government in response to our discussions with Mr. Clark, and the Canadian Parliament assembles on Friday.)

(2) The issuance of firm instructions to the U.S. Executive Director in the International Fund to insist upon a public declaration by the Fund that the proposed Canadian gold subsidy in its present form is contrary to the Fund's Articles of Agreement. (If Overby brings sufficient pressure to bear, it seems certain that he can obtain a majority vote in favor of such declaration.)

(3) The issuance of a public statement by the U.S. Government, immediately following the Fund's statement, in which the United States would express its strong disapproval of any form of artificial stimulation of gold production and announce that countries which engaged in such practices would be denied access to American supplies and equipment needed for their gold mining industries. Action would also be taken, and announced in the public statement, requesting the International Fund to study and report upon the question of artificial stimulants to gold production other than premium prices for gold (or subsidies equivalent to premium prices). (Mr. Overby has already explored the possibility of getting the Fund to include in its public statement a condemnation of all forms of artificial stimuli to gold production. However, this would clearly go beyond the obligations of member countries under the

Articles of Agreement, and there is no reasonable prospect of his succeeding in this endeavor at the present time. In fact, while it may be desirable to have the Fund make a study of this problem, I see no prospect of its coming out with any action satisfactory to us. This is a clear case of a conflict of interest between the United States as the principal market for the world's gold production and the various gold producing countries.)

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We had a sharp debate yesterday on the question of whether the United States should now announce (or threaten) refusal to purchase gold from countries which indulged in artificial stimulation of gold production. There is a faction in the Treasury Department which favors such a course, but the rest of us reject it on the following grounds:

(1) It would almost certainly prove to be unenforceable. As a matter of fact, if we should try to boycott Canadian gold, if and when they proceed with some kind of a subsidy plan, it is likely that they would simply start selling it at premium prices in the black markets around the world. This would be a serious blow to our present policy of trying to dry up these black markets, and before long we would find it quite impossible to avoid purchasing Canadian gold through indirect channels.

(2) Even more serious would be the general shock to international confidence in gold if we should invoke this action. This might well be interpreted as a first step by the United States toward abandonment of its gold purchase policy. The repercussions would be unpredictable, but one possible result would be the dumping of foreign gold upon the United States "as long as the going was good".

SECRET