THE SENATE

CANADA

Ottawa, November 1st, 1945

Mr. Marriner S. Eccles,
Chairman, Board of Governors of
The Federal Reserve System,
Washington, D.C.

My dear Mr. Chairman:

I enclose herewith a record of the Debates of the Canadian Senate dated October 30th.

Enclosure retained by Miss Marsoury

At page 170 you will find the Resolution of Senator the Honourable A. D. McRae dealing with gold production. In the Senator's remarks you will find, at page 171, his views on the relative value of the Americal dollar to American gold.

I have always assumed that when the price of gold was changed to $35.00 an ounce that the gold content of the American dollar could not have been effected because there was at that time no such thing as a gold American dollar. The dollars in the United States at that time consisted of coins of metal other than gold which were not convertible into gold, paper currency not convertible into gold and bank deposits not convertible into gold. The only currency in circulation at that time, related to gold, were gold certificates which constituted a very small portion of the total currency in circulation.

Concurrently with the change in the price of gold, all contracts payable in gold were cancelled by law. To whatever extent gold reserves were retained, the purpose was not to secure the value of the currency by having it convertible into gold, but to limit the total issue to a gold reserve established for that purpose and suspendible should a national emergency arise requiring an increase of the currency in issue and circulation.

I have always assumed that gold for monetary purposes took its value from the law which gives to gold by weight a money value. The dollar surely never took its value from gold. But gold took its value from the relationship of the dollar to gold by weight. Now, if I remember correctly, the President

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of the United States acted on the advice of a Professor in Economics of one of the Universities. I do not recall his name. I wonder if you could let me have it along with the theory advanced at the time justifying the increase in the price of gold, the results promised and the results secured.

Now at page 172, Senator McRae deals with gold coverage and states:"The reserves of gold were so depleted (in the United States) that last January legislation was passed by Congress reducing the coverage from 40 per cent to 25 per cent in anticipation of that country not having gold enough to maintain the official coverage of 40 per cent". Is this a correct statement? And if not, what are the facts?

The Senator then proceeds to indicate that the United States is now indebted to other countries and South America. The Senator then proceeds to indicate that payment of balances owing to South America and others in gold exported or in gold earmarked to the credit of other countries, and gold held on behalf of other countries, constitute obligations payable in gold to the extent of almost all the gold held in the United States. Are these statements made in this regard by Senator McRae correct or otherwise? If not, what are the facts?

I may tell you that Senator McRae is an outstanding Canadian and is looked upon as something of an authority in the gold mining world.

Yours sincerely,

"Gerry"

G. G. McGeer

encl.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

November 14, 1945.

To: Miss Egbert

From: Mr. Knapp

After the Chairman has signed the attached letter, will you please detach the enclosure to Senator McGeer's letter and send it to Miss Maroney?

December 20, 1945.

The Honorable G. G. McGeer,
The Senate,
Ottawa, Canada.

My dear Senator McGeer:

Your letter of November 1 enclosing a copy of the Debates of the Canadian Senate for October 30 deserved a prompter reply, but I have been so occupied with pressing affairs here, including the British loan, that I have not had an opportunity until now to take careful note of Senator McRae's discussion. (Sent to Miss Maroney 12/20/45)

He is correct with regard to our gold legislation in 1934 and the fact that the value of gold was fixed at $35.00 an ounce by reducing the gold content of the dollar as our official monetary unit. As you doubtless are aware, actual gold dollars were withdrawn from circulation in March of 1933 and I see no likelihood of getting back in any predictable future to minting of gold. It seems to me rather profitless to argue whether the value of gold has changed in terms of the currency or whether the value of the currency has changed in terms of the gold. Obviously both statements are so, but to the man in the street, who measures values in dollars, it is natural to say that the value of gold has increased.

Senator McRae is in error in saying that commitments and other obligations of the United States payable in gold are equal or nearly equal to our gold reserves, which now stand at about 20 billion dollars. Gold held under earmark in this country for foreign account, which amounts to between 4 and 5 billion dollars, is quite separate from our reserves and is not counted as part of them. We have no domestic obligations payable in gold. Neither do we have any external obligations (aside from gold under earmark) which are specifically expressed in gold. I suppose you might regard demand deposits held in the United States by foreigners as a contingent gold obligation since they could be freely withdrawn from the country in the form of gold. As of the end of May 1945, such deposits amounted to less than 6 billion dollars. Of course, foreigners also hold various substantial investments in the United States, but we hold much larger investments abroad. It is wholly improbable that even the demand deposits held by foreigners, or any substantial portion of them, will be withdrawn in gold. The United States is more likely to continue drawing gold than losing it, as I see the outlook.

Senator McRae is right in saying that the gold reserve requirements at Federal Reserve Banks were recently reduced to 25 per cent of notes in circulation and also of deposits. The former ratio was 40 per cent reserve against notes and 35 per cent against deposits. This is merely a technical bookkeeping matter, however, and as far as I am concerned, it would simplify matters if these artificial gold requirements were removed entirely. Anyway, this reduction in the gold requirements was not due to depletion or our gold reserves at all, but to the fact that in this country, as in other countries at war, there had been an enormous increase both in note circulation as well as in the volume of deposits held with Federal Reserve Banks -- all of this being due, of course, to war financing operations.

It has always been supposed that the reduction in the gold content of the dollar was instigated primarily by the late Professor Warren of Cornell University, who had a theory that prices would automatically adjust, that is, that we could thus raise the price level. I have often said that I wished it were that simple. A trial of the theory was sufficient to demonstrate that except for some effects in international trade the theory did not work and, of course, even those effects disappeared as soon as other countries took corresponding action to depreciate their currencies.

These comments are addressed to you merely for your own information since I would not want to be drawn into a debate on this subject, which is surrounded by so much festishism, as Dr. Goldenweiser of our economic staff has frequently put it. We have our gold mining interests in this country, to say nothing of the silver interests, which are always alert to make any case they can for producing more and more at higher and higher prices. From time to time when I have had to appear before Congressional committees, these interests have voiced their pet theories and attempted to draw me into debate, which I prefer to avoid since most of it is such a waste of breath. Hence, I would not wish to be identified with any challenging of Senator McRae's views in your own country.

Sincerely yours,

M. S. Eccles,
Chairman.

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