Official U.S. Mint figures

# U.S. gold output
(In thousands of fine ounces)

| 5 leading states | 1942 | 1943 |
|---|---|---|
| California | 894 | 149 |
| So. Dakota | 535 | 114 |
| Alaska | 503 | 110 |
| Utah | 391 | 382 |
| Nevada | 300 | 141 |
| Total for all U.S. | 3,742 | 1,395 |

Value $131 million (1942)

Value $49 million (1943)

(Mostly by-product of copper in Utah)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date February 19, 1945

To Mr. Goldenweiser

From W. R. Gardner WRG

Subject: Harmful consequences of raising the price of gold instead of reducing reserve requirements.

An increase in the dollar price of gold of 60 per cent would have the same effect as reducing the reserve ratio from 40 per cent to 25 per cent; but it would have other effects as well which would be harmful to the economy.

Additions to redundant money supply.

The higher price for gold would add to an already redundant money supply in three ways:

(1) The gold increment of 12 billion dollars would be credited to the Treasury's account and as it was spent it would increase both deposits in the hands of the public and excess member bank reserves.

(2) The higher price would also stimulate additional gold production and the conversion of this additional gold into dollars at the higher price would increase deposits in the hands of the public and excess member bank reserves.

(3) The increase of 8-1/2 billion dollars in the value of existing foreign gold reserves would enable foreign countries to send a larger dollar value of gold to the United States, as they did after a similar revaluation upwards of their gold reserves in 1934. Conversion of this added gold into dollars would also add to deposits in the hands of the public and excess member bank reserves.

Subsidy to foreigners.

The higher price paid for foreign gold production and foreign gold reserves sent to this country would constitute a subsidy to foreigners. We would be paying premiums for gold that we do not want. We already have more gold than we need for purposes of international settlement. A creditor country such as the United States with a strong balance of international payments could easily settle any deficit that may develop in its international transactions with half the gold that we now have. Gold is not needed for domestic circulation; and it is needed as reserves against notes and deposits only to the extent that we choose to impose requirements on ourselves. The British, the Canadians, the French and others have eliminated required reserves altogether.

Threat to Bretton Woods Agreements

The lower value of the dollar in terms of gold might tend to depreciate the dollar in the exchange market and create unsettled conditions there at the very time when we are trying to get the nations of the world to agree together on policies of exchange stabilization. Depreciation of the dollar might jeopardize the Bretton Woods Agreements.

General comments.

If we wish to add to our money supply (we do not at the present time) it is far better to do so through an expansion of Federal Reserve credit, which can later be withdrawn should inflation threaten, than to do so by creating added billions of dollars in ways that add nothing to the offsetting powers of the Federal Reserve System. Particularly when those added dollars are created through subsidizing foreign gold production or paying more for existing foreign gold reserves, they represent a drain on this country's productive resources. Nor would foreigners be too well pleased if our action unsettles exchange markets and makes it necessary for foreign countries to depreciate their own currencies.

None of these adverse complications will arise if the problem of a falling ratio is met by a simple reduction of reserve requirements.

GOLD PRODUCTION

(In millions of dollars)

| Year | Including an estimate for U.S.S.R. | | | Excluding U.S.S.R. | | |
|---|---|---|---|---|---|---|
| | Total | U.S. 1/ | Foreign | Total | U.S. 1/ | Foreign |
| 1934 | 958 | 108 | 850 | 823 | 108 | 715 |
| 1939 | 1,389 | 196 | 1,193 | 1,209 | 196 | 1,013 |
| 1940 | 1,477 | 210 | 1,267 | 1,297 | 210 | 1,087 |
| 1944 p/ | 1,062 | 35 | 1,027 | 962 | 35 | 927 |

p/ Preliminary

1/ Including Philippine Islands

February 19, 1945

FOREIGN ASSETS IN THE UNITED STATES

(In millions of dollars)

| Type | End of 1939 | End of 1940 | June 1941 | November 1944 |
|---|---|---|---|---|
| Short-term balances | | | | |
| Official | 585 | 1,266 | 1,440 | 3,179 |
| Private | 2,506 | 2,519 | 2,380 | 2,253 |
| Total | 3,091 | 3,785 | 3,820 | 5,432 |
| Long-term investments | 1/ | 1/ | 2/ | |
| Stocks and bonds | 3,531 | 3,047 | 3/ 3,130 | |
| a. Common stocks | 3/ 2,493 | 3/ 2,056 | | |
| b. Preferred stocks | 4/ 499 | 4/ 459 | | |
| c. Bonds | 4/ 539 | 4/ 532 | | |
| Direct investments | 5/ 2,028 | 5/ 2,051 | 5/ 1,950 | |
| Other investments | 6/ 750 | 6/ 750 | 7/ 1,525 | |
| Total | 6,309 | 5,848 | 6,605 | |
| old under earmark 8/ | 1,135 | 1,808 | 1,916 | 3,891 |

1/ Department of Commerce estimates.
2/ Reported to Treasury Department on TFR-300.
3/ Market value.
4/ Par value.
5/ Book value.
6/ Various values.
7/ Includes estates and trusts, notes, debts and claims, insurance policies, real estate, goods and merchandise, etc. at various valuations.
8/ Gold under earmark does not constitute a claim on the United States. It is exactly the same as gold held by foreign countries in their own vaults except for the fact that it is physically located in the United States.

ebruary 19, 1945.