BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 6, 1945

To E. A. Goldenweiser

Subject:

From W. R. Gardner WRG

Attached are several tables which may give the Chairman some further information on the gold situation.

The first table, for instance, brings out the fact that in raising the price of gold from $35 to $56 an ounce we would increase the annual value of world gold production by 865 million dollars on the basis of 1941 figures. The year 1941 was selected because any more recent year would reflect the curtailment of gold production brought about by various war measures. Of the 865 million dollar increment, 740 million dollars would go to foreign countries, including 500 million dollars to the British Empire.

The second table shows the effect of the assumed increase in the price of gold on existing foreign gold reserves. The footnote brings out the fact that South Africa would get an increment of about 470 million dollars in its existing gold reserves, in addition to the 305 million dollar increment in its annual gold production shown in the first table.

The third table gives South African gold mining data. The number employed in the mines amounted to 380,000 in 1941. More than half of the swollen dividends of the South African gold mines were payable outside the Union that year, most of these outside payments presumably going to the British.

The fourth table shows the small number of men employed in gold mining in the United States, although the coverage is not complete because some gold is produced as a byproduct of copper.

The fifth table now in preparation will give the data in regard to United States gold production in more detail than was possible in the note that I sent down to the Capitol.

Attachments

RESERVE RATIO PROJECTIONS

	End of 1945	End of 1946	End of 1947
		(Per cent)	
Reserve ratio - projected*	39.2	32.1	26.6
		(In billions of dollars)	
Additional gold loss that would bring ratio to:			
30 per cent	4.2	1.1	--**
25 per cent	6.4	3.7	0.9

Short-term foreign balances in United States, November 1944

Official	$3,179 million
Private	2,253 "
Total	$5,432 million

*Assuming:

1. Loss of 1.0 billion dollars of gold reserves in 1945. The loss in 1943 was 0.8 billion and in 1944 1.3 billion.

2. Excess reserves of member banks unchanged with sufficient growth in reserve balances to accommodate deposit expansion equal to that which occurred in 1944 with allowance for only two war loan drives in 1945. A small growth of foreign deposits is also assumed.

3. A 5 billion-dollar increase in currency in circulation; approximately the same as in 1943 and 1944.

**Ratio would be below 30 per cent with no additional loss of gold.

Table 1

Estimated World Gold Production - 1941
(In millions of dollars)

Area	At $35 an ounce	At $56 an ounce	Increment
British Empire*	835	1,335	500
Europe (excluding United Kingdom)	165	265	100
Latin America	105	170	65
Asia (excluding British India)	95	150	55
All other	30	50	20
Total Foreign countries	1,230	1,970	740
United States (including Philippine Islands	210	335	125
Total	1,440	2,305	865

~~South Africa and Canada~~

* At $35 an ounce South Africanand Canadian production amounted to $505 million and $185 million respectively; at $56 an ounce the figures would be increased to $810 million and $300 million respectively.

Table 2

Estimated Foreign Gold Reserves on September 30, 1944,
at $35 and $56 an Ounce

(In millions of dollars)

Area	At $35 an ounce	At $56 an ounce	Increment
British Empire *	3,045	4,875	1,830
Europe (excluding United Kingdom)	8,080	12,930	4,850
Latin America	2,265	3,625	1,360
Asia (excluding British India)	995	1,590	595
All other	25	40	15
Total	14,410	23,060	8,650

~~* South Africa~~

*It might be well not to make the figures for the British Empire public since the United Kingdom and Canada are concealing their reserves for security reasons. Their holdings have been estimated for the purposes of this table. The largest reported figure is 785 million dollars for South Africa. At $56 an ounce this figure would be increased to 1,255 million dollars.

Table 3

South African Gold Mining Data 1/

	1930	1939	1941	1942	1943
Average market price in London (shillings)	85.0	154.3	168.0	168.0	168.0
Yield (ounces)	10,716,351	12,819,344	14,386,361	14,120,617	12,800,021
2/ Dividends (~~pounds~~ £)	8,716,000	19,903,000	19,400,000	17,489,000	15,323,000
Payable outside Union	*	57%	53%	*	45%
Salaries and wages (~~pounds~~ £)	15,726,000	119,034,000	123,645,000	124,963,000	117,971,000
Number employed in mines	236,305	335,218	379,948	367,113	316,136
Tax yield (~~pounds~~ £) (Fiscal year ended March 31)	1,650,000	12,650,000	23,515,000	24,676,000	23,700,000

1/ Data in some instances not fully complete and applies to large mines only.

* Not available.

2/ Large amounts of gold mining stocks have been repatriated from British to South African ownership in the war years. In order to encourage such transfers the Union Government in 1941 imposed a tax of 5 per cent on dividends payable to non-resident stockholders. This levy was raised to 7-1/2 per cent in 1942.

Table 4

Employment and Production in United States Gold Mines, 1941

	Average number of men employed	Amount of gold produced (dollars)
In gold placer mining	13,368	52,067,225
In gold lode mines	21,668	84,109,690
Total	35,036	136,176,915
In gold-silver lode mines	3,203	5,698,350
In silver lode mines	2,829	580,020
Total	41,068	142,455,285
Total production in continental United States		169,122,300

Gold Production of the United States
(In thousands of dollars)

State and Territory	1941	1942	1943	Decrease 1942	Decrease 1943	Decrease 1941-1943
California	50,107	31,295	5,211	18,812	26,084	44,896
Philippine Islands	40,052	5,555	482	34,497	5,073	39,570
Alaska	24,364	17,606	3,840	6,758	13,766	20,524
South Dakota	21,415	18,741	3,977	2,674	14,764	17,438
Colorado	13,567	10,137	4,699	3,430	5,438	8,868
Nevada	13,228	10,496	4,930	2,732	5,566	8,298
Utah*	13,040	13,675	13,386	+ 635	289	+ 346
Arizona	11,109	8,978	6,096	2,131	2,882	5,013
Montana	8,844	5,479	2,148	3,365	3,331	6,696
Idaho	5,292	3,458	1,042	1,834	2,416	4,250
Other	8,156	5,543	2,997	2,613	2,546	5,159
Total	209,174	130,963	*48,808	78,211	82,155	160,366

* Largely by-product gold

Largest producers of gold in United States in 1941

California
- Yuba Consolidated Gold Fields
- Idaho Maryland Mines Corp.
- Natomas Co.
- Empire Star Mines Co., Ltd.
- Lava Cap Gold Mining Corp.

Alaska
- United States Smelting, Refining and Mining Co.
- Alaska Juneau Gold Mining Co.
- Alaska Pacific Consolidated Mining Co.

South Dakota
- Homestake Mining Co.
- Bald Mountain Mining Co.

Colorado
- Golden Cycle Corp.
- New Jersey Zinc Co.
- Telluride Mines Inc. (formerly Veta Mines Inc.)

Nevada
- Getchell Mine, Inc.
- Nevada Consolidated Copper Corporation
- Consolidated Copper Mines Corporation

Utah
- Utah Copper Company
- Snyder Mines, Inc.
- United States Smelting, Refining and Mining Co.

Arizona
- Phelps Dodge Corp.
- Mammoth-St. Anthony Ltd.
- United States Smelting, Refining & Mining Co.

Montana
- Anaconda Copper Mining Co.

Idaho
- Talache Mines, Inc.

Washington
- Howe Sound Company
- Knob Hill Mines, Inc.

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THE GOLD STANDARD AND PROSPERITY

There is little in history to support the statement that countries that have departed from the gold standard invariably suffered disastrous inflations. Countries on the gold standard are not likely to leave it, except when forced to do so by serious disturbances. Consequently, there is the likelihood that departure from the gold standard and bad times will coincide. It is, however, more accurate to say that maintenance of the gold standard at a time when it was not adapted to conditions has caused bad times, rather than to say that bad times have followed departure from the gold standard.

England suffered severe depression in the 1920's because it went back on the gold standard prematurely and at too high a rate for the pound sterling. Its departure from the gold standard in 1931 was forced by circumstances, but was followed by an expansion in trade. It is for this reason that British public opinion is set against a return to a rigid gold standard.

In Germany departure from the gold standard was also caused by unfavorable conditions and was followed by the establishment of an elaborate system of exchange controls and multiple currency rates which were used by the German government to drive hard bargains with those who were dependent on the German market. Germany herself during the period of the 30's experienced a vigorous expansion, though to be sure it was based primarily on arming the nation.

In France clinging to the gold standard through the early 30's caused serious hardship and a flight of capital which contributed to wrecking the economy.

Disastrous inflations have usually been caused not by the monetary system but by war. Departure from gold was only one of the incidents in the progress of wartime inflations.

It should be kept in mind in general that the gold standard as a widely functioning system of international exchange prevailed in the world only for a relatively short period, principally from 1870 to 1914. During that time management of international finance by England, in which maintenance of a fixed price of gold was one of the elements, prevailed. With universal peace and relatively stable economic conditions this machinery functioned reasonably well. It broke down, however, as soon as more powerful forces loosed upon the world by war upset world stability.

PRINCIPAL FEDERAL RESERVE DEVELOPMENTS
(Dollar amounts in millions)

	Reserves of Federal Reserve Banks (Nearly all gold)	Federal Reserve note circulation	Deposits of Federal Reserve Banks (Mostly member bank reserves)	Reserve ratio (Per cent)	Federal Reserve Bank holdings of: United States Government securities	Bills discounted	Acceptances	Loans and investments of all commercial banks	Federal Reserve index of industrial production (1935-1939 = 100)
1920 - December	2,222	3,343	1,822	43.0	339	2,718	242	36,250e	62
1922 - June	3,136	2,138	1,893	77.8	591	437	136	33,893	74
1923 - December	3,169	2,292	1,931	75.0	106	771	324	37,296	84
1924 - December	3,057	1,884	2,255	73.8	554	307	358	39,836	86
1926 - December	2,929	1,856	2,290	70.6	322	668	385	43,927	97
1927 - December	2,893	1,795	2,436	68.4	606	529	378	46,780	93
1929 - June	3,011	1,667	2,374	74.5	179	978	99	49,424	113
1931 - June	3,490	1,656	2,483	84.3	610	190	121	44,853	77
1932 - June	2,799	2,630	2,166	58.4	1,697	495	50	36,091	54
1933 - December	3,772	3,072	2,830	63.9	2,432	117	101	30,789	70
1939 - June	13,801	4,457	11,697	85.4	2,563	4	1	39,367	103
1944 - December	18,723	21,594	16,430	49.2	18,693	265	-	105,300e	232

e - Partly estimated.
Note: Federal Reserve Bank data are monthly averages of daily figures. Commercial bank data are end-of-month figures.
Index numbers are adjusted for seasonal variation - 1935-1939 = 100.

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1. The bill, in itself, would have no effect on the Reserve Bank ratio -- it would merely reduce the number of ounces of gold that the Treasury would have to hold back of the Reserve Banks' gold certificates, and release the remainder of the gold ($12,000,000,000 at the new valuation). This profit would belong to the Treasury and the gold would not come to the Reserve Banks unless the Treasury chose to spend the equivalent of this amount or to deposit it with the Reserve Banks. Of the increment resulting from the revaluation of the dollar in 1934 -- $1,800,000,000 is still held by the Treasury in the Stabilization Fund.

2. When the Treasury spends the profit on the devaluation -- this would add not only to the reserves of the Reserve Banks but also to member bank deposits and to their reserves, thus aggravating the existing inflationary pressure.

3. The higher price of gold would also increase gold production both here and abroad. As this additional gold was sold to the Treasury by producers here and abroad it would still further increase deposits and reserves of member banks, and by an amount enhanced by the higher price of gold. This would not only encourage ~~diversion of effort~~ into the production of a non-essential commodity -- but would also further aggravate inflationary pressure.

4. An increase of the price of gold to $56 would increase the dollar value of the $14 billions of gold held by foreigners by about $8.5 billions. This would increase their claims on our goods. It would be a tremendous gift to foreigners. It would also result in a larger flow of gold to the United States in terms of dollars and, therefore, would still further increase our inflationary danger.

5. The higher price of gold would be a subsidy -- not only to our gold producers -- but also to foreign gold producers, chiefly British, Russian, and Canadian.

6. Reduction of the exchange value of the dollar -- which would result from an increase in the dollar price of gold -- would aggravate the existing situation in making it still more difficult for foreign countries to compete with us in world markets. It would be a step diametrically opposed to the Bretton Woods Agreements, which attempt to revive world trade by establishing fair and stable exchange values for currencies.

7. The number of persons employed in gold production in this country in 1941 was only 35,000. It would be far cheaper to subsidize them in some other way, if Congress saw fit to do so, rather than to make a move that would have all the disturbing consequences just stated -- both in the United States and throughout the world.