

## Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. Martin

DATE: February 11, 1949

FROM : G. A. Eddy *gae*

SUBJECT: Treasury Gold Policy and Speech

Here is the latest reproduced form of the Gold Speech for possible use by the Secretary which was mentioned in the meeting in your office Thursday on South African gold. A few rather minor changes agreed on at the last meeting of Treasury and Federal Reserve staff are not inserted in this copy, but this gives the general plan of it pretty well.

The last point in the speech seems to me the weaker side of a very controversial issue. I wrote that part as convincingly as I could to conform to the Treasury party line. That point is that the Treasury should continue to deny individuals the right to buy gold if they wish to. I will not labor you now with a full exposition of the arguments pro and con. A passing bird's eye view of why I feel we have to do something more than hold on to our present official position is contained in the following:

"Many aspects of gold are now in a thoroughly unsatisfactory condition:

- "1) There is very wide expectation at home and abroad that the price of gold will be raised and widespread sentiment around the world that the U. S. dollar is not really worth 1/35 of an ounce of gold.
- "2) There are increasing reports of rather large scale violation of U. S. gold regulations such as smuggling gold out to foreign markets and diversion of gold to private hoarding.
- "3) The business of marketing gold in its natural state, which is technically consistent with the U. S. regulations but contrary to their spirit, seems to be flourishing, with quotations well over \$40 per ounce.
- "4) With varying degrees of possible blame on the Treasury, the dollar is selling at discounts in terms of gold in many countries.
- "5) The Treasury has a very difficult, though perhaps minor problem on just what gold coins can be permitted to be held for collection purposes.
- "6) Black markets for and private hoarding of gold are flourishing in many foreign countries, particularly France, Italy, Belgium, and so forth, not to mention China and other chronic causes. It is the exchange controls of the European countries especially which the U. S. is presumably trying to protect by its own restrictive policies on gold, yet these countries seem to show no interest in being protected.
- "7) The IMF policy against international sales of gold at premium prices is being violated by a majority of the members, is admitted by some staff-members of the Fund to be unenforceable, and by some to have been wrongly conceived or expressed.

- "8) There is a growing tendency in foreign countries to subsidise gold mining.
- "9) The U. S. Treasury continues to be the only large-scale buyer of gold and to receive gold in a volume which strains the control of bank credit.
- "10) Inflation and depreciating paper money are still rampant in many countries, and there are many opinions that the U. S. should make some loans of monetary gold.
- "11) Treasury restrictions on gold for industrial and professional use are an aggravating burden on the gold industry and gold users, and leading American dealers complain they are losing their oldest and best foreign customers because of the onerous Treasury requirements for licenses.
- "12) Treasury policies are tantamount to pressure on every other country to follow the U. S. example of prohibiting circulation and private ownership of gold, even though several parts of the world seem unable to operate a satisfactory managed currency with token coins and paper bills.

"Although some of these conditions may well be beyond remedying by U. S. monetary action, the time seems ripe for a thorough reconsideration of Treasury gold policy.

"My recommendation has long been that the only real solution for a number of these difficulties is for the Treasury to offer a good deal of gold at \$35.00 an ounce for private purchase. The proposal should first be referred to the IMF. A number of variations on the way the general idea is carried out can be devised to fit the particular requirements."