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My dear Senator:

This is in further reply to your letter of January 5, 1949, requesting a statement of the Treasury position on legislation permitting the sale of gold on the open market by lode gold producers. Because of the importance of this subject and the widespread interest which it has aroused, the answer to your letter has been delayed until the Treasury finished a re-examination of the problem.

It appears that the principal purpose of the proposed free market in gold in the United States would be to provide a market for the sale of domestic gold production at a price exceeding the monetary value of gold of $35 an ounce. The Treasury is strongly opposed to the development of a market for gold in the United States in which the price may deviate materially from the official monetary value of gold. Such a duality of price would conflict with the basic purposes which lead the Government to buy and sell gold and to use it as reserves for its banking and currency system. For the Government to hold a floor under the price of gold but not to fix a ceiling over it at the same price violates the whole conception of the use of gold for official monetary reserves and for defining and maintaining the parity value of currency. The Treasury policy of buying all gold from authorized sources at $35 an ounce in order to keep the dollar from going to a premium over 1/35th of an ounce of gold has the effect of keeping the price of gold from falling below $35 an ounce. There would be no valid reason why the Treasury should continue this purchase policy if it were not also to sell gold at the same price to keep the dollar from going to a discount below 1/35th of an ounce of gold and thereby also preventing the price of gold from rising above $35 an ounce. The purpose of using gold as the monetary standard of a currency is to tie the money firmly to the value of the chosen quantity of gold. In fulfillment of this long-standing United States policy of having a fixed monetary standard, the Secretary of the Treasury is required by law to maintain all forms of United States money at parity with the gold dollar.

The Treasury believes that it is of the utmost importance that it continue to stand ready to sell gold to foreign governments and central banks for all legitimate monetary purposes and to United States residents for all authorized purposes at $35 an ounce. By this means the dollar is maintained at a parity with the gold dollar for all legal transactions at home and abroad, with the minor exception of a limited class of transactions in Switzerland for the settlement of which the Swiss monetary authorities will not accept gold. (The United States Government of course cannot undertake the maintenance of the parity value of the dollar in relation to black market transactions in gold abroad, or sanction private United States participation in such transactions, since they enable individuals in foreign countries to evade the exchange control laws and regulations of foreign countries.) If the Treasury should continue its present policy as to sales of gold while a higher price for gold prevailed in an open market in the United States, foreign governments and central banks could maintain their gold stocks by purchase from the United States at $35 an ounce, although their domestic production and private holdings of gold might flow to the United States for sale at a higher price in the open market. Similarly, it would be difficult to restrict Treasury domestic sales of gold at the official price to legitimate and customary industrial, professional or artistic uses while an open market existed where gold could be sold at premium prices.

Thus, the existence of two prices for gold would cause monetary disturbances and would be inconsistent with the Secretary of the Treasury's duty to maintain the dollar at a value equivalent to 1/35th of an ounce of gold. Such disturbances might contribute to a public loss of confidence in the dollar and aggravate inflationary pressures. In critical economic periods the movement of gold into the premium market would increase the strain upon the banking system. Moreover, to authorize a legal market in the United States where premium prices for gold were available might bring about unstable and disorderly conditions in the foreign exchange market and would be inconsistent with the principles of the Bretton Woods Agreements.

In order to avoid any misapprehension concerning the Treasury's attitude on placer gold, it should be noted that the exemption of gold in its natural state from the licensing procedure of the Gold Regulations issued under the Gold Reserve Act of 1934 was not intended to foster unrestricted traffic in or ownership of such gold. The exemption was intended to free the business of prospecting for gold from licensing requirements and to save the Government the difficult administrative problem of licensing the operations of prospectors and small mines. It was not contemplated that private owners would hoard gold in its natural state.

If a free market for gold also contemplates the free exportation of gold from the United States, there are other objections. The International Monetary Fund has issued a statement to its members stating that it "strongly deprecates international transactions in gold at premium prices and recommends that all of its members take effective action to prevent such transactions in gold with other countries or with the nationals of other countries." By such transactions, foreign exchange holdings of other countries, which otherwise might be used for sorely needed imports, tend to be diverted to the purchase of gold for private hoards. In addition, it would seem clearly inappropriate for the United States to make it less costly for nationals of other countries to build up private gold holdings at a time when their governments are having to borrow money or solicit grants from the United States in order to pay for essential imports. The efforts of these governments to centralize potential foreign exchange and to prevent their nationals from acquiring gold for hoarding might be seriously handicapped if a large supply of gold were readily available in the United States. Accordingly, even if gold were made freely available within the United States, it would probably be desirable to prohibit private exports of gold for unauthorized purposes.

These are some of the principal reasons why the Treasury would oppose unrestricted trading in newly-mined gold. Should you have any additional questions, please do not hesitate to write again.

Very truly yours,

(SIGNED) WM. McC. MARTIN, Jr.
Acting Secretary of the Treasury

Honorable Warren G. Magnuson

United States Senate

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