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P. M. W.
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SOME SUGGESTIONS CONCERNING
THE GOLD EMBARGO PROBLEM.

It appears to me that the following principles should be observed by the Federal Reserve Board in granting or refusing licenses for the export of gold:

Shipments of gold should not be permitted unless it is clearly shown that the gold is used for the payment of goods. In other words, the transaction must be run down to a discovery of the purchaser and seller and the ultimate destination before the granting of a license for shipment will be considered.

In each case the applying concern should be requested to state exactly the name of the consignee and the nature of the underlying transaction.

This will, generally speaking, exclude shipments by banks, local and foreign, for their own account.

When information as complete as possible has been obtained, if the fact of American purchase and consumption has been established, a presumption will arise in favor of allowing the proposed shipment. If, however, it should appear that the proposed shipment of gold involves payment for goods bought in one foreign country and destined for another, the presumption will be against the proposed shipment. Such presumptions will in neither case be conclusive. Thus the presumption in favor of a shipment may still be overcome by the character or quantity of the articles imported considered in relation to their utility in the present war conditions, or political or international considerations may dictate a course at variance with commercial indications.

A ruling of this kind would at once throw back upon foreign countries the burden of shipping gold insofar as it is needed for their purchases in other countries, and will enable each country in turn to deal with its own nationals in regulating their purchases in foreign lands, involving shipments of gold.

It will thus become the duty of each country, including our own, to scrutinize the character and quantity of goods that are being paid for by gold remittances.

Whenever it is a question of excessive purchases of articles which are not necessaries, licenses for gold exports should be refused. This function might be exercised to better effect by an import council, similar to the export council, which will control importations.

Any hardships involved in this procedure might be mitigated if the banks in foreign countries which would be unfavorably affected through these measures, instead of exacting fold would either buy their own or other securities held in the United States or buy our securities - be it existing securities or Government securities to be issued for that purpose - or if, as in some cases they might, they would take our circulating notes.

In this connection, it may become necessary for the Secretary of the Treasury or the Board, or both, to circularize the banks of the country in order to advise them that they must not ear-mark any more gold for foreign concerns. This applies also to the Federal Reserve Banks. Ear-marking has in every respect the same effect as exportation and it might be advisable to ask all banks to state, for the confidential use of the Government, what amounts they have ear-marked at this time and for whom. It might become advisable at some later date to ask banks, except so far as bound by definite contract to the contrary, to undo these transactions by tendering the gold to their foreign correspondents and offering to keep the amount on deposit,

It is urged that an understanding be sought with allied countries - particularly England and France - dealing with this problem. The so-called foreign exchange problem can be solved if, as far as consistent with war requirements, each country involved will try to adhere to the policy of not permitting its nationals to buy in a foreign country a larger quantity of goods than the purchasing country can pay for by shipping goods or selling securities, or for which the selling country is willing to grant an extended credit.

Respectfully submitted: