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By [unclear]*

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Memo for the  
Pres*

November 27, 1961

Dear Mr. President:

The Treasury has, as you requested, been studying for some time the uses of silver in our monetary system. Informal conferences have also been held with other departments in your Administration, with the Federal Reserve, and with leading representatives of both silver producing and consuming interests. It now seems appropriate to recommend several changes in our silver procedures, largely because of the change that has taken place in the world position of silver.

The industrial uses of silver have been expanding greatly and the industrial consumption of silver is steadily increasing; it continues to be used extensively in the arts; it is needed in our coinage. All together, the industrial, artistic and coinage uses of silver are currently consuming more than 150 million ounces of silver per year in the United States. The total world-wide consumption is estimated at more than 300 million. Production, however, falls far short of these totals. World-wide it is currently estimated at 235 million ounces annually, of which only about 35 million is produced in the United States. The indicated gap between world production and world consumption, apart from changes in inventories, is thus now running at about 65 million ounces.

This gap, and it is a growing one, has for some time been filled by sales from the stocks of "free silver" held by the United States Treasury. These stocks were accumulated in earlier years when total demand was much lower and purchases by the United States Treasury, at the minimum price established by the Congress for monetary purposes, absorbed virtually all new domestic production. The Treasury's supply of free silver reached its peak in April, 1959, at 222 million ounces. Since that time, purchases have steadily decreased and sales have increased and the Treasury's stock of free silver has declined. By the end of 1959 it was 174 million ounces; by the end of 1960 it had fallen to 125 million ounces; as of today, following unusually rapid sales in recent weeks, it has fallen to about 22 million fine ounces.

It is clear that under present procedures this stock would soon be entirely exhausted and that the Treasury would thereafter have no further silver available for public sale. It also seems clear on the basis of these developments that there is no remaining need for Government support of the silver price at 90.5 cents, as provided under current legislation. In the absence of further Government sales of free silver, the private market is quite obviously prepared to absorb all domestic production at or above the price of 90.5 cents.

The Government still has, however, nearly 1.7 billion ounces in a bullion reserve held against the issuance of a part of our paper currency.

Roughly one quarter of the total is held against \$5 and \$10 silver certificates, although existing legislation also permits issuance of \$5 and \$10 notes by the Federal Reserve, and these latter notes represent well over 90 percent of the outstanding currency of these denominations. The other three quarters of the silver bullion reserve is used to support \$1 and \$2 silver certificates; under existing law, only silver certificates are authorized for currency of these denominations.

In view of the large and growing aggregate demand for silver, it does not seem to me to be either wise or feasible to continue to impound a substantial holding of silver bullion in these currency reserves. I propose that we now begin an actual, though gradual, withdrawal of silver bullion from the currency reserves, permitting substitution of Federal Reserve notes for the silver certificates withdrawn, and using the bullion thereby released to meet our continually heavy coinage requirements. At the same time, under the authority of existing law, I propose to suspend further sales of silver to the market. I further recommend that appropriate legislation be requested promptly to remove the Treasury from an active role in the markets for the purchase and sale of silver, and to permit trading in silver as a primary commodity. Meanwhile, the Treasury's remaining stocks of free silver should be conserved for possible use in contributing to orderly market conditions pending enactment of the necessary legislation.

If you should desire to implement this general policy, the first step would be a Presidential directive to the Secretary of the Treasury to suspend further sales from the remaining stock of free silver. Uses of this remaining stock for subsidiary coinage should be terminated, and to meet coinage needs I would propose to retire from circulation a sufficient amount of \$5 and \$10 silver certificates to release the silver required for this purpose. These retired certificates would be replaced by Federal Reserve notes.

Paralleling this action it would be desirable to recommend to Congress, when it reconvenes, the immediate repeal of the Silver Purchase Act of 1934, as well as the Acts relating to silver of July 6, 1939, and July 31, 1940. Since the existing tax on transfers of interest in silver bullion is necessary only to support this legislation, it would also be desirable to propose simultaneously to Congress that the relevant part of the Internal Revenue Code be repealed so as to permit the development of a free futures market in silver.

Finally, I suggest that you consider recommending to Congress the enactment of legislation authorizing the Federal Reserve System to issue Federal Reserve notes in denominations of less than \$5, thus providing an orderly, long-term means for replacing or supplementing the supply of silver certificates and thereby freeing the supplies of silver that will be needed to cover future coinage requirements.

Faithfully yours,

(Signed) Douglas Dillon

Douglas Dillon

The President

The White House

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