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THE SECRETARY OF THE TREASURY
WASHINGTON

Proposed Part of gold cover legislation

FEB 20 1968

Dear Mr. Chairman:

proposal in Congress for limited inconvertibility of gold

We understand that an amendment may be offered to H.R. 14743 which would provide that no gold of the United States may be transferred to (a) any nation which permits private citizens or nationals thereof to deal in gold bullion in any manner or (b) any nation which permits any gold held by it to be transferred directly or indirectly to nations described under (a).

We should like to state in the strongest possible terms that legislative provisions of this sort could do irreparable damage to the dollar and to the international monetary system as a whole. A cornerstone of that system is the United States pledge to convert dollars freely into gold at $35 per ounce for foreign central banks and monetary authorities. Any limitation on that pledge, even if applied to only one country, would call the basic validity of the pledge itself into question. It would make other countries nervous since they would feel that they might also be limited at some future time. The result of such uncertainties would very likely be a major loss of trust in the dollar and an increase in gold conversions by these countries.

We should also like to point out that an amendment of the type cited would in effect amount to a virtual embargo on United States gold sales. Most foreign nations at the present time do permit their individual citizens to deal in gold bullion in some manner, at least for industrial and artistic purposes. Indeed, even if a country had precisely the same internal regulations governing gold use as those which are in effect in the United States, it would apparently be ineligible to receive U. S.

Martin & Fowler are pleading w/ Wright Patman to not push through legislation that would suspend gold sales to certain countries as part of an amendment dealing with French WWI debt. Copies of the letters were also sent to Wilbur Mills, William Widnall, and Henry Reuss.

gold under the amendment. Thus, the effect of the amendment would be precisely the opposite from the one which the legislation for the removal of the gold cover is designed to achieve: namely, to convince the world that our gold stock stands fully behind our gold pledge.

Inclusion in the gold cover legislation of the kind of amendment cited above would seriously compromise the status of the dollar and of the international monetary system as a whole. We urge, therefore, that you do everything in your power to prevent the inclusion of the amendments cited in the gold cover legislation.

Sincerely yours,

Henry H. Fowler

Henry H. Fowler

Wm. McC. Martin, Jr.

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The Honorable
Wright Patman
Chairman, Committee on Banking
and Currency
House of Representatives
Washington, D. C. 20515

x Gold cover (1968)

THE SECRETARY OF THE TREASURY
WASHINGTON

FLD copies

FEB 20 1968

Hold - where can get to him
JB

Dear Mr. Chairman:

It has been suggested that H.R. 14743 be amended to include provision for the establishment of a so-called strategic gold reserve. We believe such an amendment would have extremely serious repercussions on the dollar and on our gold stock.

The principal purpose of removing the gold cover requirement is to convince the world that the American gold stock stands fully behind our pledge to convert dollars into gold at $35 per ounce for central banks and monetary authorities. This pledge is one of the keystones of the international monetary system and has been given to the world by Presidents Eisenhower, Kennedy, and Johnson. Without it, foreign central banks and monetary authorities would be reluctant to hold dollars in their official reserves, which now stand at a level of around $15 billion.

Any limitation to that pledge would be dangerous. By earmarking a specific amount of our gold reserve, we would be telling the world that only the balance was available to stand behind our pledge. In such case, and depending upon the nature and amount of the earmarking, it would be highly likely that a number of foreign central banks holding dollars would become nervous and might rush in to convert their holdings into gold. Thus, instead of saving gold, these proposals could well lead to gold losses. These losses weaken the liquidity position of the United States as the world banker, a position fundamental to the present international monetary system. Moreover, the conversion of dollar reserves held by the central banks of other countries into gold diminishes the supply of the world's reserves and undermines international liquidity on which the growth of trade and development depends.

Furthermore, a strategic reserve is unnecessary as far as key industrial use in terms of national emergencies is concerned. Our domestic production presently covers not only the strategic needs of defense and space industries but all of our true industrial needs, that is, all uses except in jewelry, artistry, and dentistry. Thus, in the remote event of a severe crisis, such as proponents of the amendment envisage, we can channel our annual production into the vital needs and stop supplying nonessential needs.

A strategic reserve of gold is also unnecessary from the viewpoint of our ability to purchase essential commodities from abroad in the event of a national disaster. In our view, the nature of warfare today makes it seem highly doubtful that a gold reserve would be useful to the United States in a dire emergency. The example has been given that, if a bacteriological attack destroyed the U. S. food supply, we would need gold to buy food from abroad. This is a highly remote and speculative contingency, and it raises such questions as to what country would have enough food to supply the United States; would there be sufficient undestroyed transportation available to move the food to the United States; and, finally, how much food could be purchased with a gold reserve, considering that over 200 million Americans spend $96 billion for food each year.

sort of a far-fetched scenario

Our own great productive capacity assures that we could always generate enough exports to cover our vital import needs. Beyond that, however, it has been made amply clear that, while we do wish fully to have our gold stock in a position to support the international role of the dollar through removal of the gold cover requirement, this by no means signifies that we expect our situation to deteriorate to the point where we would, in fact, lose all of our gold. Indeed, the whole purpose of the Balance of Payments Program announced by the President on New Year's Day is to arrest this drain.

Considering the possible harmful effects which a strategic gold reserve requirement could have in the present circumstance, it seems quite unwise to set aside part of our gold to meet a highly remote contingency for which gold would be relatively useless.

The way to conserve our gold is not by frightening the world with a limitation on the amount of gold behind our dollar, but by meeting the fundamental cause of our gold losses -- our balance of payments deficit. This must be done by carrying through the President's New Year's Day program.

Sincerely yours,

/s/ Henry H. Fowler

Henry H. Fowler

/s/ William McChesney Martin, Jr.

William McChesney Martin, Jr.

The Honorable
Wright Patman
Chairman, Banking and
Currency Committee
House of Representatives
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