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Department of State

chase policy (US 596 / 1/40)

BUREAU  
DIVISION

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ENCLOSURE

TO

Letter drafted 7/18

ADDRESSED TO

British Ambassador

Gold purchase policy (US) 596 / 1 / 40

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Inc. Bulletin  $\int$  to see 1/12

BRITISH EMBASSY,

WASHINGTON, D.C.

February 13th, 1940.

No. 152.

My Lord,

I have the honour to inform Your Lordship that the outbreak of war and the general knowledge available regarding Allied war purchases in the United States have given rise in the last month or two to a revived discussion of the gold problem as it affects the United States.

2. The more important contributions to the discussion include the following. On the 9th January Mr. Winthrop Aldrich, Chairman of the Chase National Bank, reviewed the question in his report to shareholders and recommended that gold should be put into circulation again, that Congress should grant further powers to the Board of Governors of the Federal Reserve System to raise reserve requirements, and that generally policy should aim at creating a situation after the war in which goods might move freely over international boundaries. Mr. Aldrich's views have also been supported by Mr. Randolph Burgess, of the National City Bank, in an address before the Connecticut Bankers' Association on the 25th /January.

The Right Honourable,  
The Viscount Halifax, K.G.,  
etc., etc., etc.

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January. In the January issue of the Federal Reserve Bulletin there appeared a sensible analysis of the problem by Dr. E. A. Goldenweiser, which however hardly sought to recommend remedies beyond suggesting that the situation would correct itself if the United States purchases from abroad exceeded sales, or if foreign investment were renewed. Dr. Goldenweiser did not, however, anticipate much progress in this direction and concluded "The ultimate solution will have to be a part of the answer to the much broader problems of the restoration of world stability and international trade. It will also be bound up with rationalisation of our own economy".

3. On the 19th January the press published some spirited notes prepared by Mr. R.C. Leffingwell, senior partner in J.P. Morgan and Company, for the Temporary National Economic Committee. Mr. Leffingwell, after severely criticising the American tariff policy, opposed any change in the price of gold but recommended a policy which favoured a gently rising level of commodity prices. In an address made by Mr. Adolf Berle, Assistant Secretary of State, at the Yale Political Union on the 31st January, the speaker, in treating of post-war problems, went so far as to suggest that it would not be fantastic to contemplate after the war the free gift of a part of America's gold to foreign countries for reconstruction purposes.

4. On the 27th January Senator Townsend

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delivered an exhaustive address on the subject at Wilmington, Delaware, in which, after criticising the Administration for helping Russia by purchasing Russian gold, he concluded by demanding that Congress should investigate the whole problem. This address was followed by a short debate in the Senate on February 1st which was most<sup>ly</sup> occupied with a wrangle regarding the alleged purchase of Russian gold; but the Administration leaders pointed out that the Senate Banking and Currency Committee was already authorised to make a special study of monetary problems and was preparing to do so. For the rest the Administration leaders put into the record extracts from the letters written by the Secretary of the Treasury to Senator Wagner (22nd March 1939) and Senator Vandenberg (24th October 1939) copies of which were forwarded with my predecessor's despatch No. 371 of 29th March 1939, and with Mr. Pinsent's letter of 27th October 1939 to Mr. Waley, Treasury.

5. The wrangle about Russian gold has had a wide echo in the Press, and Mr. Morgenthau has had rather the worst of it, since he could not conjure away the fact that the United States has, directly or indirectly, bought the bulk of Russia's exported gold, which was not all marked with a hammer and sickle when it reached the United States.

6. A discussion of a somewhat different order appears in a book entitled "Golden Avalanche"

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by Messrs. Graham and Whittlesey published at the end of 1939. This book, which was written before the war broke out and inadequately revised since then, displays superficial cleverness rather than profound study. The authors are opposed to maintenance by the United States of a fixed price for gold at all, and would aim rather at stabilising the level of commodity prices. As an immediate measure, however, they make the astonishing proposal that, while the internal price of gold in the United States should be maintained at \$35 an ounce, there should be (1) a fixed import duty and an equal export bounty or drawback, and (2) a supplementary variable import duty, depending on the rate of gold imports, without any compensating export bounty. Although this book has attracted some attention, there is no sign that the authors' proposals are taken seriously in any quarter.

7. The latest and, on the face of it, most significant reference to the subject occurred in an election campaign speech at St. Paul, Minnesota, by Senator Vandenberg, one of the leading candidates for the Republican nomination for President. In his suggestions for a Republican programme, Senator Vandenberg included the following:- "Stop buying all the gold and silver in the world at swollen prices when we already have twice as much as we can use. Stop buying gold from Russia at \$35 an ounce which Russia produces for \$11 an ounce - and puts the profit into execrable war upon Scandinavia".

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But Senator Vandenberg is a clumsy politician at the best of times and it does not in the least follow that these points will be adopted into the Republican programme or carried out if the Republicans should come into power.

8. In all these discussions the basic facts are common ground, viz:- the large gap which began to open in 1931 between the cost of production of gold and the purchase price fixed by monetary authorities, and the enormous resulting increase of gold production; the tendency of gold to flow to the United States even beyond the extent of new production; the fact that there is no likelihood (even apart from the war) under present conditions that this flow will be reversed; the increase in the American monetary holding to nearly \$18 billions, or 60 per cent. of the world's monetary reserves of gold; the consequent increase in the excess reserves of the banking system to over \$5½ billions, and the fact that if conditions were favourable an enormously inflated structure of credit could be built on these excess reserves. But while the anomalies of the situation are freely set forth, few of the persons taking part in the discussion have any positive suggestions to offer as a cure. Only Mr. Leffingwell had the courage to attack the tariff policy of Congress and proposed, contrary to the views of the Administration, that a gentle and general rise in commodity prices should be encouraged.

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Apart from Senator Vandenberg, no responsible person has been prepared to suggest that there should be any alteration in the policy of purchasing gold without limit at the fixed price of \$35 an ounce - indeed this suggestion has been almost conspicuously avoided. The harm which such a step might do to the American economy itself is, of course, one good reason for this restraint; but over and above that there are probably few people in this country who would be prepared during the war to advocate a measure which might have such a disastrous effect on the position of the Allied Powers. On the other hand one or two persons (Senator Townsend for example) urge that if this latter reason is the real ground for continuing the present policy, it should be openly acknowledged.

9. It is, I think, clear that the Administration, as represented by Mr. Morgenthau and the President, are staunch and have not the slightest intention of changing their policy in a manner unfavourable to the Allies if they can help it. But with a Congress, like all elected democratic bodies, profoundly ignorant of financial affairs, there is naturally a certain danger that this very delicate and technical problem may be mishandled and that advocates may be found for superficial or selfish solutions. I do not myself believe that there is any appreciable danger of a change of policy so far as present indications go. But the continued growth in the American gold holding is bound to

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invited continued attention and discussion, and  
it will be necessary to watch the growth of  
public sentiment on the subject.

I have the honour to be,  
with the highest respect,  
My Lord,  
Your Lordship's most obedient,  
humble servant,

(Sgd.)      LOTHIAN.