GOLD REPORT

A Discussion of the United States Gold Problems

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With GOLD AND SILVER STATISTICS
Arizona and the United States
Preliminary, 1967 (pages 13-15)

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April, 1968

G O L D

Under various Congressional acts the value of gold per troy ounce has been established, using the eagle ($10 gold coin) as a basis, as follows:

Date of Law	Standard Weight (grains)	Fineness (1000ths)	Fine Gold Content grains	Value per troy fine ounce (480 grains)
April 2, 1792	270	916.6666+	247.5	$ 19.393939
June 28, 1834	258	899.2248+	232.0	20.689656
Jan. 18, 1837	258	900.0000	232.2	20.671835
Mar. 4, 1900	258	900.0000	232.2	20.671835
Jan. 31, 1934	152	900.000	137.1	35.000000

In President Roosevelt's message to Congress on January 15, 1934 at a time when we were going through the Great Depression, unemployment was rife and prices were exceedingly low, he stated:

"In conformity with the progress we are making in restoring a fairer price level and with our purpose of arriving eventually at a less variable purchasing power for the dollar, I ask Congress for certain additional legislation to improve our financial and monetary system. By making clear that we are establishing permanent metallic reserves in the possession and ownership of the Federal Government, we can organize a currency system which will be both sound and adequate."

On April 19, 1933, for the second time in its history, the United States went off the gold standard. (From shortly after the outbreak of the Civil War to January 1, 1879, specie payment was suspended and gold was at a premium.) President Roosevelt issued an Executive Order in which he forbade the hoarding of gold coin, bullion and gold certificates, followed by an Order relating to foreign exchange and earmarking of gold coin, bullion, or currency, that forbade the export of gold bullion - - but permitted the exporting of gold in ore, in concentrates, in unretorted amalgam bullion and unrefined cyanide precipitates. As this threatened to close many smelters already working on part capacity due to the depression, a later Executive order established the mechanics whereby the Reconstruction Finance Corporation began buying newly-mined gold at arbitrarily established and periodically rising prices to meet and then exceed the rising world price. Later the Reconstruction Finance Corporation was authorized by Presidential order to extend Government purchase of gold by entering foreign markets and it began to bid for gold in Paris and London markets offering $32.36 an ounce. Between October 25, 1933 and January 16, 1934, the premium prices paid for domestic and foreign gold gradually rose according to Presidential dicta from $31.36 to $34.45.

President Roosevelt maintained: "The practice of transferring gold from one individual to another or from the Government to an individual within a nation is not only unnecessary but it is in every way undesirable. The transfer of gold in bulk is essential only for the payment of international trade balances. Therefore it is a prudent step to vest in the government of a nation the title to and possession of all monetary gold within its boundaries and to keep that gold in the form of bullion rather than in coin."

President Roosevelt further maintained in his January 15, 1934 message that "The title to all gold being in the government, the total stock will serve as a permanent and fixed metallic reserve which will change in amount only so far as necessary for the settlement of international balances or as may be required by a future agreement among the nations of the world for a redistribution of the world stock of monetary gold."

"That we may be further prepared to bring some greater degree of stability to foreign exchange rates in the interests of our people, there should be added to the present power of the Secretary of the Treasury to buy and sell gold at home and abroad, express power to deal in foreign exchange as such. As part of this power, I suggest that, out of the profits (note: $2,883,800,000) of any devaluation there should be set up a fund of $2.billion for such purchases and sales of gold foreign exchange, and Government securities as the regulation of the currency, the maintenance of the credit of the Government and the general welfare of the United States may require."

In compliance with the recommendations contained in the President's message delivered to Congress, on January 30, 1934 Congress passed the Gold Reserve Act of 1934. By Presidential proclamation of January 31, the weight of the gold dollar was fixed at 15 5/21 grains, nine-tenths fine. This is 59.06+ percent of the former weight of 25 8/10 grains, nine-tenths fine, as fixed by section 1 of the Act of March 4, 1900. The value of gold per fine ounce immediately became $35.00.

At the end of December 1933, the monetary gold stock of the United States was valued at $4,323,000,000 with an ounce of fine gold valued at $20.67 per ounce. "Gold coin in circulation" was omitted in January 1934 and monetary gold stock at the end of January was adjusted to $4,033,000,000.

At the end of 1933, the monetary stock of 50 countries of the world, including the United States was valued at $11,964,000,000 calculated at $20.67+ per fine ounce. Thus, before revaluation of the gold, the United States possessed 36.1 percent of the World's monetary gold stock.

The Secretary of the Treasury, with the approval of the President, issued a public announcement that beginning February 1, 1934 he would buy through the Federal Reserve Bank of New York as fiscal agent, for account of the United States, any and all gold delivered to any United States mints or the assay offices in New York or Seattle, at the rate of $35 per fine troy ounce, less the usual mint charges, and less one fourth of 1 percent for handling charges. Under these regulations, the mints were authorized to purchase gold recovered from natural deposits in the United States or any place subject to its jurisdiction, unmelted scrap gold, gold imported into the United States after January 30, 1934 and such other gold as might be authorized from time to time by rulings of the Secretary of the Treasury.

The mints also were authorized to sell gold to persons licensed to acquire it for use in the industries, professions, or arts but not to sell more than was required for a 3 months' supply for the purchaser. The price at which gold was to be sold by the mints was $35 per troy ounce plus one-fourth of 1 percent.

Gold exports immediately were eliminated by the Secretary's announcement and a stream of imports at the $35 rate began, February and March 1934 imports being valued at $690,200,000. Together with the mark-up of the gold-holding value to $35 per ounce, the monetary gold stock of the United States jumped to $7,695, 000, 000 by the end of March 1934.

GOLD INDUSTRY

A discussion of the United States Gold Problems

Compiled by: Arizona Department of Mineral Resources

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ERRATA

Page	Line	Should Read
3	5th fourth paragraph third sentence	As an important part of the United States gold production is a by-product of copper production, the increase in gold production was stimulated by the increase in the copper production rather than by an increase in the mining of gold per se.

The 1940 Minerals Yearbook of the Bureau of Mines, Page 61, contains the following statement:

"Gold production (mine report) in the United States (Territories included) increased in 1940 for the eleventh consecutive year and set a new high annual record. In the 7 years 1934-1940, during which gold was valued at $34.95 per fine ounce in 1934 and at $35 in 1935-1940 in terms of United States currency (compared with $20.67+ from 1837 to 1932 inclusive), the annual domestic output has more than doubled. -- Although final figures on the total output of gold in the world in 1940 are not yet available, preliminary data indicate that the world output increased - - to 41,560,000 ounces, the highest in history." (Note: The 1940 production was not to be exceeded until 1959 when the expansion of production in the Republic of South Africa more than offset the decreased production elsewhere in the world.)

A comparison of production by various countries and the total world for representative years is presented in Table III A, in order to trace the pattern of gold production from the pre-World War II peak in 1940 to the present.

In 1933 the world had begun to come out of the Great Depression and by 1940 the Second World War was upon us. In 1933 a number of the copper mines of Arizona and other states that had been shut down during the Depression were started up, mostly at reduced rates, and the gradual expansion back to capacity took until the latter part of the decade. As an important part of the United States gold production is a by-product of copper production, the increase in gold production was mining of gold per se. However, this does not mean that there was no additional gold mine operation as a result of the increase in the government's gold price.

Interesting comparisons are presented in the following table of World, United States, and Arizona copper, gold, and silver production in 1933 and 1940:

		1933	1940	
World				
Copper	Short Tons	1,154,108	2,688,510	133.0%
Gold	Troy Ounces	25,367,395	42,270,000	66.6%
Silver	Troy Ounces	169,159,054	275,387,000	62.7%
United States				
Copper	Short Tons	190,642	878,086	360.6%
Gold	Troy Ounces	2,291,694	4,869,949	112.5%
Silver	Troy Ounces	23,128,783	70,436,354	204.5%
Arizona				
Copper	Short Tons	57,021	281,169	393.1%
Gold	Troy Ounces	79,993	294,807	268.5%
Silver	Troy Ounces	2,390,363	7,075,215	196.0%

Beginning with 1941, world gold production began to drop as the war took away needed men and materials, and costs of labor and supplies increased while the gold price remained fixed. However, in the Union of South Africa, which produced about 35% of the total world output of gold in 1941, in spite of losses of skilled workmen and engineers to military service, and increased working costs, production was maintained by "extending the ordinary working hours, amending leave arrangements, working overtime, practicing the strictest economy in the use of all stores, using substitute material wherever possible, reducing replacements in equipment to a minimum and the restriction of development work."

Early in 1942, the War Production Board in the United States asked gold and silver operators to give precedence to more essential operations to conserve mining material and supplies, and gold and silver mines were excluded from the priority benefits of Preference Rating Order P-56, except where these metals were recovered as by-products from copper, lead, and zinc ores.

On October 8, 1942 the War Production Board issued its Limitation Order L-208 which declared a "non-essential mine" to "mean any mining enterprise in which gold is produced, whether lode or placer, located in the United States, its Territories or possessions, unless the operator of such mining enterprise is the holder of a serial number for such enterprise which has been issued under Preference Rating Order P-56".

Operators of "nonessential mines" were to take immediate steps to close them down, with a maximum of only seven days from date of Order L-208 to "acquire, consume, or use any material, facility, or equipment to break any new ore or to proceed with any development work or any new operations in or about such time" and a maximum of sixty days to accomplish the complete shutdown, " except to the minimum amount necessary to maintain its buildings, machinery and equipment in repair and its access and development workings safe and accessible."

The orders were not to apply to "any lode mine which produced 1,200 tons or less of commercial ore in the year 1941, provided the rate of production of such mine, after October 8, 1942, shall not exceed 100 tons per month, nor to any placer mine which treated less than 1,000 cubic yards of material in the year 1941, provided that the rate of treatment of such placer mine after October 8, 1942, shall not exceed 100 cubic yards per month."

However, it was contended that in spite of the L-208 Order, "so few men could be made available for other work ....", that "the Government continued to supply gold miners in other countries and to buy their output while the gold mines in the United States were singled out from a host of industries regarded as nonessential ..." (Minerals Yearbook 1942)

"Order L-208 provoked much discussion...". One group argued that "the order testified eloquently to the uselessness of gold as a means of financing our war program; that our continued acceptance of gold from South Africa, Canada, and Russia was due primarily to a desire not to disrupt the domestic economy of our Allies or to put additional obstacles in the way of their paying for needed American goods; that no such political expediency made it necessary to continue producing gold from domestic mines;" etc. (Minerals Yearbook 1942-p82)

This action on the part of the Government virtually sounded the death-knell of the domestic gold mining industry, in which mining is done for the gold itself, and not primarily for other metals. Only a few of the largest mines were able to continue. In California, Colorado, Idaho, Alaska, Arizona, and Montana, which were important gold mining states in 1940, production dropped precipitously. None has ever regained its former stature. The drop in the United States as a whole also was precipitous, as is illustrated by the following gold production figures for representative years:

GOLD PRODUCTION (Troy Ounces)

	United States	Alaska	Arizona	California	Colorado	Idaho	Montana
1940	4,869,949	755,970	294,807	1,455,671	367,336	146,480	272,602
1943	1,363,815	99,583	171,810	148,328	137,558	30,808	59,586
1945	954,572	68,117	77,223	149,938	100,935	17,780	44,597
1950 (1)	2,394,231	(1) 289,272	118,313	412,118	130,390	79,652	51,764
1955	1,880,142	249,294	127,616	251,737	88,577	10,572	28,123
1960	1,666,772	168,197	143,064	123,713	61,269	6,135	45,922
1966	1,803,420	27,325	142,528	67,764	31,915	5,056	25,009

(1) Highest since shutdown by Order L-208.

Although the gold mines were permitted to reopen after World War II, most of them had so deteriorated during the extended shutdown that it would have been very expensive to rehabilitate the workings. Furthermore, the costs of labor, materials, and supplies rose so rapidly that the reopening of many mines was not feasible.

The gold miners, and others, believe that it is only fair that since the Government largely was responsible for their plight and for the dearth of gold mines, it should give them the same consideration as is given the wheat grower, the cotton grower and the peanut grower. A subsidy should be given to the discoverer of a gold deposit who is willing to apply his acumen and fortitude to develop workings that make new contributions to the country's much-needed gold supply - contributions that would be economically impossible when the Government insists on a fixed price for gold.

In 1943, production of gold in the United States fell to the lowest figure since gold was discovered in California in 1848, and many gold miners were without funds to continue payments under contracts and to meet past and present tax obligations. In 1945 United States production of gold hit an all-time low of 954,572 ounces.

From the time that the United States price of gold was arbitrarily increased to $35 per ounce with the offer to purchase any and all gold delivered by foreign governments (amended during World War II to exclude gold from countries allied with the Axis powers), foreign gold was shipped here in increasing amounts. In 1940, a record gain of $4,351,000,000 occurred when much gold was acquired from European countries invaded by Germany. At the end of 1941, the year the United States became involved in World War II, the United States gold holdings amounted to $22.737 billion, or 71.3 percent of the total World Reserves of $31.877 billion.

After the entry of the United States into the war, increases in foreign gold reserves became rapid while United States reserves dropped, largely because United States war purchases abroad so greatly exceeded commercial exports in value. By the end of 1945, United States monetary stocks had dropped to $20.065 billion or 57.3 percent of the total World Reserves of about $35 billion, and as a result many foreign countries such as Sweden, Turkey, Iran, Spain, South Africa and the Latin American Countries entered the postwar period well supplied with gold reserves that promised to be an element of strength in rehabilitating world trade on a peacetime basis.

In 1946, there was a reversal in the trend of the gold flow and in 1947 the largest United States net increase since 1940 was recorded. United States net imports for the year were nearly twice world output.

Owing to restrictions on the international movement of gold and silver and also to measures taken by governments to stabilize the exchange value of currencies, gold and silver had lost much of their monetary use even prior to 1948. The International Monetary Fund and the International Bank for Reconstruction and Development - which came into existence on December 27, 1945, endeavor to promote exchange stabilities as one of their primary objectives. Par values of the currencies of the 44 member nations are expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944 and variations may only be made in accordance with the Fund Agreement. International gold transactions for which high premiums were quoted, frequently took place in incontrovertible currencies, particularly in countries where confidence in the future value of the national currency was lacking or where political conditions were disturbed.

Countries have sought ways and means of encouraging gold production but it was not until 1963 that world production of gold exceeded the 1940 production of 42,270,000 ounces. As noted in Table III A, of the Free World Countries who are producers of substantial quantities of gold, only the Republic of South Africa is producing more gold than it did in 1940, and it is South Africa which has enabled the Free World to produce more gold today than it did in 1940.

The uninterrupted decline in world output of gold since 1940 was arrested in 1946, the first full year after Order L-208 was rescinded, but factors adverse to both gold and silver production - including labor shortages, high wages, shortage of supplies and equipment, and rising taxes - appear to have been a world-wide problem. Ever since World War II there has been world-wide discussion regarding the propriety of again arbitrarily raising the price of gold to counter the decreasing purchasing power of the dollar - and also the increasing costs of mining the gold. However, sight is lost of the fact that the original increase in the price of gold from $20.67+ to $35 per ounce by Presidential fiat and Congressional concurrence in 1934 had the sole purpose in mind of raising prices. Gold had been the security behind currency in circulation and bank deposits and volume of credit, and increasing the price of gold meant the encouragement for the issuance of more currency and the expansion of bank credit without increasing the amount of gold to support such increases. Many leading economists of the day correctly warned that it would lead to inflation. Comparisons of prices today with prices at the time the gold price was arbitrarily increased vividly illustrate the ravages of this inflation.

Inflation restricted flow of gold and other pressures to reprice gold upward, increased after the war and much gold passed into private hoards rather than into central holdings, with the hoarders being those who either preferred gold to paper currency or speculators who were anticipating a rising price for the metal. Between 1942 and 1953 the increase in the World Monetary stocks totalled only about $2 billion, or less than the World production for only the first two of the eleven years.

The net inflow of gold into the United States, reestablished in 1946 after a period when war expenditures had depleted United States holdings, increased unabated in 1948 and an all-time high in U. S. Monetary stocks was attained in 1949.

With the establishment of the Marshall Plan, whereby the United States undertook to accelerate the reestablishment of the economy of the nations of the world needing assistance, the inflow of gold into the United States was reversed in September 1949 and the United States Stocks declined sharply in 1950, largely as a consequence of credits extended to foreign countries under the Marshall Plan.

The decline in 1950 substantially exceeded the world mine output, i.e. we shipped out more than the world produced. Gold holdings of the United States declined from $24.427 billion at the end of 1949 to $22.706 billion at the end of 1950, with the total world reserves amounting to $35.820 billion, exclusive of the holdings of the U.S.S.R.

Late in September 1951, the International Monetary Fund bowed to the demands by most gold-producing countries to relax its policy regarding the sale of gold at premium prices on the free market. However, the U. S. Government regulations regarding the sale of United States production to the Mint or to the holder of a Treasury License at $35 per ounce, remained unaffected by permission of foreign producers to sell gold on the open market. Likewise the right of foreign holders of dollars to convert the currency into gold at the U.S. Treasury at $35 per ounce was unimpaired - but this privilege was not extended to Americans except those holding Treasury Gold Licenses (TGL). The price of gold on the European free markets amounted to $38-$39 per ounce. However, since the United States Treasury was the only market strong enough to absorb sales of gold by all comers, the Treasury price as fixed by Congress ($35 per fine troy ounce) also determined the minimum world price. The free market price in Europe at the end of 1952 had dropped to $36.75 and at the end of 1953 had reached $35.

Largely as a consequence of credits extended under the Marshall Plan gold moved more or less regularly from the United States and by the end of 1956 U. S. Monetary Stocks had dropped to $21.9 billion, or 58.1% of the $37.7 billion World Monetary Stocks estimated by the Federal Reserve Bank. However, due to increasing world production of gold, the sale of important quantities of gold by the Soviet Union, the reopening of the London Gold Market under the Bank of England on a restricted basis after a suspension of 15 years, and the decline in the premiums on the free gold markets, the agitation for higher official national gold prices carried on vigorously in preceding years by many gold producers and some foreign governments, was minimized.

The various "Foreign Aid Programs" following up the initial Marshall Plan contributions and advances, and the cost of maintaining sizable armed services units in a number of foreign nations as a buttress against Communism, caused an almost complete redistribution of the U.S. Monetary Stocks among recipient nations. Concurrent with the sale of U. S. Treasury gold to all who had the accumulating dollars to pay for it at $35 per ounce, and the renewed operation of the London Gold Market which in its first full year of operation in 1955 is estimated to have handled at least 85 percent of the new gold supply coming into the international free market, the price of gold dropped below the official parity price of $35 per ounce for a considerable period, in spite of increased demands for private hoarding, mostly in France, the Middle East and the Far East. Belgium and Luxembourg abolished all restrictions on gold transactions in 1955. For a protracted period, however, prices on the London Gold Market fluctuated within a very narrow range around the U. S. $35 price; usually determined by sterling/dollar exchange.

On February 20, 1956, the United States Court of Claims ruled that a group of gold-mining companies was entitled to receive damages from the Government for losses suffered as a result of the closing of their mines by the War Production Board Limitation Order L-208, However, this was of no assistance in the reopening of the mines that had been idle due to the deterioration of the plants and mine workings, difficulty in recruiting efficient labor forces, improbability of profits due to higher wages, higher prices for equipment and supplies and little evidence that inflation would be checked or the gold price raised, made the profit outlook dim indeed.

For a number of years through the '50's bills were introduced in the Congress to authorize free trading in gold and to limit the use of gold held or acquired by the Treasury or Federal Reserve banks to monetary purposes exclusively. Bills to raise the depletion allowance for gold mines from 15 to 23 percent also were introduced; but all bills that would have been of assistance to the gold miner either died in Committees or were defeated. The Treasury steadily resisted any change whatever in the price of gold.

However, the outflow of gold was disturbing. The ratio of gold reserve to Federal Reserve note and deposit liabilities had dropped to 42 percent at the end of 1958, as against 25 percent required for legal cover. In 1958, military expenditures abroad of $3 billion plus an outflow of $4 billion in foreign-aid grants and investments, compared with a net gain of $5 billion from commercial foreign trade. At the end of 1958 our percentage of World Monetary Stocks had dropped to 51.6. This worsening situation in the United States, prompted the resumption of gold speculation, and discussion concerning the possibility of arbitrarily establishing a higher gold price. However, since the Union of South Africa and the Soviet Union between them produced 68 percent of the New World production, the price increase would have been a boon to them and to those who had hoarded gold.

1959 saw an increase in the balance of payments deficit to $3.7 billion, and further introduction in Congress of bills to ameliorate the situation by all previous recommendations plus new proposals for unrestricted private transactions in gold, and limitation of its use by the Treasury or Federal Reserve Banks to monetary purposes exclusively, but no action was taken other than referring the proposals to committees -- where they died.

From 1960 on, as new foreign aid programs were conceived, new assistance programs instituted and more military assistance and operations abroad undertaken or expanded, the United States gold holdings kept slipping while the World Monetary Stocks kept expanding due to increasing Republic of South Africa and Soviet production. Numerous domestic social programs costing many billions of dollars were placed in operation without provision for adequate income increases to cover them fully. The non-repeating methods of collecting additional income, such as sale of metals from the strategic stockpiles and acceleration of income tax from individuals and corporations, were not enough.

The dollar now finds itself in trouble. In an article, "Behind the Troubles of the Dollar", appearing in the April 1, 1968 issue of U. S. News and World Report, there is listed -

"Between 1960 and 1968:

U. S. Government spend nearly 57 billion dollars more than it collected in taxes.

U. S. spent abroad 16 billion dollars more than it received from abroad.

Average pay per hour rose by nearly one third.

Cost of living went up by about one sixth.

Interest rates rose to the highest level in about 100 years.

U. S. gold reserves dropped by 7.3 billion dollars; claims of foreigners on American gold rose by 11.5 billion.

"Result: Foreign confidence in the U.S. dollar evaporated precipitating a crisis. It was the end of the road for a dollar fully convertible into gold. Now, emergency measures are buying time for U.S. to regain foreign confidence by living within its means."

During the years 1960 to 1968, disbursements for both guns and butter increased year by year and the gold monetary reserve dropped from 37 percent at the end of 1960 to 27.5 percent at the end of 1964. Notwithstanding this and the former precipitous drop in gold production Congress failed to take remedial action to relieve the distressed conditions in the industry, which went from bad to worse.

According to law, the gold reserve against Federal Reserve notes in circulation and bank deposit liabilities was 25 percent. This peril point was being approached in 1965, but rather than take steps to bring financial affairs into order, Congress in that year enacted Public Law 89-3, which eliminated the requirement that gold reserves be maintained against Federal Reserve deposit liabilities. Through this maneuver, the ratio of the gold reserve to Federal Reserve notes increased from 27.5 percent at the end of 1964 to 35.4 percent at the end of 1965. This recomputation of reserve ratio was achieved by modifications in the use of arithmetic rather than in efforts to prevent the gold supply from being decreased and Federal Reserve notes in circulation from being increased.

About the only steps taken were a number of contracts made under Government programs for financial assistance for gold or gold-silver exploration. In later years, the programs were administered by the Office of Mineral Exploration, with the Government loaning 50 percent of the exploration cost.

According to the article appearing in the April 1 issue of U. S. News and World Report, a number of very austere steps must be taken in order to reverse the chaotic financial results of the past eight years. In substance, they are:

1. Federal finances must be brought into order. Red ink in the budget calls for deep cuts in non-war spending and, if needed, imposition of higher taxes.
2. U. S. must start earning its way in the world; stop spending, lending and investing more abroad each year than it takes in from there. By reducing commitments to overseas areas or by earning more in those areas, U. S. can reduce foreign claims on the dollar.
3. Wage and price inflation has to be brought under control. Fast-rising wages and prices make it difficult for U. S. goods to compete in world markets.
4. Borrowing needs to be made still more costly and difficult to arrange, so as to reduce spending and curb inflation.

Our financial house must be brought into order and the Government must be reconciled to limiting its non-war spending to the amount of its intake remaining after necessary war disbursements are provided for.

On July 23, 1962, in connection with the persistent gold outflow from the United States, President Kennedy said:

"The United States will not devalue the dollar. And the fact of the matter is the United States can balance its balance of payments any day it wants if it wishes to withdraw its support of our defense expenditures overseas and our foreign aid."

It appears that the time has come to balance our balance of payments regardless of whether or not our foreign aid is directly or indirectly associated with our defense expenditures because it helps form a buttress against communism.

In 1968 the situation had become very serious. The resolve expressed repeatedly, that the value of the dollar would be maintained and dollars would be exchanged for gold at the rate of $35 per ounce, even if it took our entire supply to do so, had not been accompanied by efforts to curtail our expenditures at home or abroad. The result was a rush by foreigners to convert their dollars into U.S. gold.

According to the Wall Street Journal of March 13, 1968, with $41.5 billion of Federal Reserve paper currency outstanding, the Treasury gold stock was only $11.4 billion. It was "the skimpiest amount since 1936", with an actual ratio of 26.3%, against the legal provision of 25 percent. This left "a little over $1 billion as 'free gold' unquestionably available for sale to other governments and central banks at the fixed price of $35 an ounce". Claims against the Government gold supply due to short time liability to foreigners had climbed from $17,418 billion at the end of 1960 to $30,688 billion at the end of 1967. At the end of March 1968, in the aftermath of the latest gold rush, the gold stockpile was down to 10.5 billion dollars with claims by foreigners against that gold amounting to 32.5 billion dollars.

In an atmosphere of urgency, the Treasury Department was forced to alter its policy of buying gold from all sellers at $35 per ounce and selling gold in exchange for outstanding dollars at $35 per ounce. On March 17, 1968, the Treasury issued the following manifesto in connection with gold regulations:

> "Pursuant to agreements announced by the central banks of Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States in Washington on March 17, 1968, the Treasury Department has issued amendments of the Treasury Gold Regulations, effective immediately.
>
> "The Treasury will no longer purchase gold in the private market nor will it sell gold for industrial, professional or artistic uses. The private holding of gold in the United States or by U. S. citizens and companies abroad continues to be prohibited except pursuant to existing regulations.
>
> "The Gold Regulations have been amended to permit domestic producers to sell and export freely to foreign buyers as well as to authorized domestic users. Authorized domestic users regularly engaged in an industry, profession or art in which gold is required may continue to import gold or to purchase gold from domestic producers within the limits of their licenses or authorizations in the Gold Regulations."

Also on March 17, 1968, a "Two-Price System for Gold" for the other nations was to be established by agreement among the U. S. and major European financial powers to retain the $35 an ounce price for governmental gold stocks but to no longer supply gold to the speculative markets. Gold outside the central banks will be allowed to seek its own price level in a free market, where the price will be set by supply and demand among gold producers, industrial users, hoarders and speculators. The central banks will no longer buy gold to add to the present official gold stocks of about 40 billion dollars, nor will they sell gold to private users or to any central bank which sells it to private users. Newly mined gold, at least for a time, will be more of a world commodity, but a less important item within the world money system.

In the belief that the existing stock of officially-held gold is sufficient for use in effecting transfers among the monetary authorities which will no longer supply gold to private parties, the International Monetary Fund is to consider establishing a facility for "Special Drawing Rights", which some are calling "Paper Gold". Initially, 1 to 2 billion dollars worth are expected to be added each year to existing official reserves of gold and dollars to meet the needs of expanding world trade and international payments. Nine of the ten key nations which met in Stockholm the last of March, are committed to the creation of these "SDR's".

As described by Business Week in its April 6, 1968 issue, "the SDR plan would set the International Monetary Fund on a course that would eventually turn it into a genuine world central bank; that is, it would be able to create money through certain kinds of pen-and-ink transactions on its books. Creating money is of course nothing new in the domestic affairs of nations, but it is absolutely unprecedented in international finance."

"The eventual success of the SDR system now depends on world confidence in the Stockholm agreement - and that, in turn, largely hangs on the ability of the U. S. to manage its own economic affairs."

There is no unanimity of opinion regarding the possible success of the Two-Price System for Gold -- one price for monetary settlements and another to be determined at the market place. At any rate it should first be regarded as a stop-gap measure to create a break in the recent flight from the dollar which got to panic level. When the price of gold was determined in the free market outside of the United States during the 1950's, the price remained very close to the $35 buy-sell price of the United States, at times even falling below that price.

At present, due to the wave of hoarding and the activities of speculators, the price on the market place is somewhat above the fixed monetary price -- but there is no assurance that if an absolutely free market for gold develops, the release of gold by the hoarders and the speculators - (who are all suffering a large loss in investment interest while the gold is in storage) will not force the price to less than the fixed monetary price.

In 1934, in order to force prices up, the book value of gold was changed from $20.67+ per ounce to $35 per ounce with a resulting flooding of the country with wave upon wave of inflation. An arbitrary higher value assigned to gold now could bring about similar inflation.

Much more gold is needed. Since 1940 the production of gold in the United States has been decreasing and today the greatly increased production costs previously described, have made gold mining unprofitable.

The Administration is seeking, through the Bureau of Mines and Geological Survey, to discover new gold deposits, and with some success. However, the major incentive, a profitable price is prevented by monetary laws.

The Government made the laws, including the gold mine closing order of 1942 and there is legislation before Congress which proposes assistance to the gold miner which would stimulate gold production. Canada has found it beneficial to give such assistance and many think the United States would too.

MINE PRODUCTION OF RECOVERABLE GOLD IN THE UNITED STATES

By States

1965, 1966 and 1967

Troy Ounces

STATE	1965	1966	1967 P/
Alaska	42,249	27,325	1/ 26,000
Arizona (4)	150,431	142,528	79,372
California	62,885	64,764	51,524
Colorado	37,228	31,915	20,375
Idaho	5,078	5,056	3,884
Montana	22,772	25,009	9,988
Nevada (3)	229,050	366,903	362,760
New Mexico	9,641	9,295	4,822
Oregon	499	281	173
South Dakota (1)	628,259	606,467	585,755
Tennessee	122	141	166
Utah (2)	426,299	438,736	290,357
Other States	90,677	85,000	35,924
TOTAL	1,705,190	1,803,420	1,471,100

P/ Preliminary.
1/ Monthly total based on mint and smelter receipts.

U. S. gold production in 1966 exceeded 1965 by 5.8% whereas gold production in 1967 decreased from 1966 by 18.4%. Arizona, Colorado, Montana, New Mexico, and Utah data indicate exceptionally large percentage losses from 1966 and 1967.

April, 1968

MINE PRODUCTION OF RECOVERABLE SILVER IN THE UNITED STATES

1965, 1966 and 1967

BY STATES

Troy Ounces

STATE	1965	1966	1967
Alaska	7,673	7,193	1/ 8,000
Arizona	6,095,285	6,338,696	4,433,487
California	196,787	189,989	147,255
Colorado	2,051,105	2,085,534	1,838,522
Idaho	18,456,809	19,776,785	16,744,642
Kentucky	1,931	1,086	748
Michigan	457,851	483,000	W
Missouri	299,522	- - -	- - -
Montana	5,207,031	5,319,785	1,901,178
Nevada	507,113	867,567	474,606
New Mexico	237,472	242,620	141,468
New York	11,441	21,590	33,088
Oregon	8,801	343	32
Pennsylvania	2/	- - -	- - -
South Dakota	128,971	109,885	105,900
Tennessee	94,142	100,716	119,728
Utah	5,635,570	7,755,411	4,825,483
Washington	358,477	- - -	- - -
Wyoming	52	- - -	- - -
Other States (by diff.)	- - -	368,788	449,842
TOTAL	39,806,033	43,668,988	31,223,979

P/ Preliminary.
1/ Monthly totals based on mint and smelter receipts.
2/ Combined with Oklahoma and Washington in 1965.
W Withheld to avoid disclosing confidential data. Included in "Other States".

U.S. silver production in 1966 exceeded 1965 by 9.7 percent, whereas U.S. production in 1967 decreased from 1966 by 28.5 percent, both conditions having been produced substantially by six states - Arizona, Idaho, Montana, Nevada, New Mexico and Utah.

Source: U.S. Bureau of Mines

April, 1968

TOTAL U.S. IMPORTS AND EXPORTS OF GOLD AND SILVER

1965, 1966 and 1967

Troy Ounces

GOLD

YEAR	IMPORTS	EXPORTS	EXPORTS less IMPORTS
1965	2,905,328	36,717,043	33,811,715 oz. ($1,183 million)*
1966	1,200,045	13,066,666	11,866,621 oz. ($ 415 million)
1967	929,869	28,719,982	27,790,113 oz. ($ 973 million)**

* The 1965 gold outflow, the largest since 1960, was closely allied to the continued balance-of-payments deficit and reflected a stepped-up rate of conversion of dollars to gold by West European countries, particularly France, which received more than half of the total outflow; $259 million represented a payment of 25 percent of the U.S. quota increase to the International Monetary Fund.

** The net-import pattern of the first 11 months (of 1967) changed abruptly in December when exports jumped to a record high, reflecting extraordinary heavy demand in the London market following devaluation of the pound Sterling. For the 12-month period, net exports of 27.8 million ounces were the highest since 1965.

SILVER

YEAR	IMPORTS	EXPORTS	EXPORTS less IMPORTS
1965	54,708,970	39,665,315	- 15,043,655
1966	63,328,794	85,538,440	22,209,646
1967	55,519,873	70,768,990	15,249,117

Source: U. S. Bureau of Mines

April, 1968

The U. S. Monetary Stock at the end of 1966 was 13.235 billions of dollars. The monthly changes and resulting totals for 1967 were reported as follows:-

Month	Change $Millions	New Total $Billions	Comment
Jan.	- 33	13.202	
Feb.	- 41	13.161	
Mar.	+ 23	13.184	
Apr.	+ 50	13.234	
May	- 20	13.214	
June	- 45	13.169	
July	- 33	13.136	
Aug.	- 61	13.075	
Sept.	+ 2	13.077	
Oct.	- 38	13.039	
Nov.	- 74 (corrected)	12.963	Largest outflow in 15 months
Dec.	-900	12.065	Largest outflow ever recorded.
1967	-1170	12.065	12/31/67

(a) As of Feb. 7, 1968, the U. S. gold stock amounted to $11,884,000 or 339,540,000 ounces, the lowest level since April 1937. (Wall St. Journal, February 9, 1968).

(b) U. S. gold stock reduced to $11.4 billion - W.S.J. 3/13/68 (Elimination of 25% gold backing for free $10.4 billion of the metal for price-support operations). Currency backing presently 26.3%. Lowest level since 1936 ($41.5 billion of Federal Reserve paper currency outstanding).

(c) U. S. gold stock reduced to $10.4 billion - W.S.J. 3/21/68

TABLE III A

WORLD GOLD PRODUCTION

Troy Ounces

	1940 (1)	1945 (2)	1950 (3)	1960 (4)	1965 (5)	1966 P
Republic of So. Africa	14,096,502	12,224,629	11,663,713	21,383,019	30,553,874	30,879,800
Canada	5,311,145	2,707,494	4,441,227	4,628,911	3,587,168	3,273,905
United States	(12) 4,862,979	(12) 915,403	(12) 2,288,708	(12) 1,679,800	(13) 1,705,190	(13) 1,803,420
Oceania	(6) 2,266,641	880,540	1,128,672	1,237,389	1,078,427	1,062,323
Ghana	(7) 886,326	539,252	689,441	893,113	755,191	684,395
Rhodesia	826,485	568,241	511,163	562,703	544,100	(e) 550,000
Philippines	1,140,126	17,208	333,991	410,618	435,545	452,672
Colombia	631,927	506,695	379,412	382,785	319,362	275,267
Republic of the Congo	555,404	346,971	339,415	14,145	90,408	158,632
Mexico	883,117	499,301	408,122	300,256	215,796	190,815
Japan	(9) 900,000	128,410	135,180	261,496	264,842	254,345
Brazil	264,322	212,200	195,500	118,893	161,044	207,563
India	239,324	168,366	196,925	160,593	130,628	120,244
Other Free Countries	2,508,552	2,921,129	5,914,896	1,523,847	1,608,425	1,476,617
TOTAL FREE WORLD (Part Estimated)	35,422,850	22,635,839	28,626,365	33,557,568	41,450,000	41,410,000
U.S.S.R. (Estimated)	(15) 5,100,000	(15) 3,200,000	(15) 3,600,000	4,100,000	5,030,000	5,370,000
North Korea (Chosen)	(10) 947,279	(10) 96,452	200,000	160,000	160,000	160,000
China Mainland	578,188	- - -	108,000	50,000	60,000	60,000
Yugoslavia	(11) 75,000	(11) 75,000	(14)	(14)		
Other Soviet Sphere	146,683	92,709	165,635	332,432		
TOTAL SOVIET SPHERE	6,847,150	3,464,161	4,073,635	4,642,432	5,250,000	5,590,000
TOTAL WORLD (Estimated)	42,270,000	26,100,000	32,700,000	38,200,000	46,700,000	47,000,000
Arizona Oz.	294,807	77,223	118,313	143,064	150,431	142,528

(1) From U.S.B.M. Minerals Yearbooks: (1) 1945 (2) 1950 (3) 1954 (4) 1964 (5) 1966
(6) Australia, New Zealand & Mandated Islands (7) Formerly Gold Coast (8) Actual Production Data Not Available for all Countries Due to Clandestine Trade or Non-reporting. Estimates therefor are included in total.
(9) Approximate Production (10) Includes S. Korea (11) Conjectural Figure (12) Refinery Production
(13) Mine Production (14) Included in Free World (15) Adjustment in 1964 Yearbook. (P) Preliminary (e) Estimate.

April, 1968