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THESIS

The Effect Of The Silver Purchase Act of 1934 on United States, China, Mexico and India.

by

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Its Effect on China, India, Mexico, and the United States.

Outline.

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(continued)

Preface

The Silver Purchase Act of 1934 -- When we hear that phrase or title we immediately interpret it in our own minds as having something to do with buying silver. If we become curious we ask ourselves, "Why do we want to buy silver?" "Who are we buying it from?" and "What will we do with it after we get it?" These and many other questions are passed off with brief answers as, "We want silver to back our money." "We need it in our treasury." "We are buying silver from the mines, or China, or England." or "We will use it to make more money for the people of the United States."

These answers are very insufficient and while all of them are practically correct, none of them really gives a just explanation of the act. The Silver Purchase Act may not be as important as some of the Acts passed by Congress in 1934, yet it has had a decided effect on the future of the silver market. The immediate effect on the people of the United States may be very slight. Nevertheless, the Act has been the cause of pronounced changes in the currency systems of China and Mexico, and has threatened that of India. Therefore, a careful study of the situation seems to be warrented despite the fact that there are those who believe it is a comparatively insignificant issue in national and international economics.

Uses of Silver.

Before we try to analyze the Silver Purchase Act, there are several things we must know about silver. First, there are the uses of silver. Since time immemorium the people of this world have considered gold and silver as the precious metals. The primitive peoples prized them because of their luster. The first coins are believed to have been made about 700 B. C. of electrum, a natural alloy of gold and silver which was found in the western part of Asia. (1) We find that Croesus in 561 B. C. changed from these to a double standard of silver coins and gold coins. (2)

From that time until the 18th century silver and gold were used more or less as a double standard. In 1816 Great Britain legally abandoned silver, although actually she had been on a single gold standard for some years, due to the gold price of silver being out of proportion with the mint ratio. (3)

1. MacDonald, G. The Evolution of Coinage, Page 5. University of Cambridge, G. Putnams' Sons. 1916
2. Same as 1, page 8.
3. Gresham's Law -- Two or more forms of money in use in a country and one is less valuable than the other, the less valuable will circulate, the more valuable will disappear.

Not until 1873 did the silver question become very serious. In that year Germany, because of large gold reparations received from the Franco-Prussian war, was able to adopt the gold standard. (1) This caused Germany to dump large amounts of silver on the market, prices of silver fell, and several other countries were forced to abandon silver. The Latin Monetary Union was formed to try and keep silver coins in circulation. Even India, a country strongly instilled in a silver standard, abandoned it in 1893. By 1900 when the United States gave up silver as a monetary base, China was the chief country on the silver standard, although India still took large amounts from the world market every year.

At the time of the world war there was a great demand for silver. It rose in price and large quantities were drained out of China. In 1920, however, Great Britain who had bought a good deal of silver to keep India on a silver standard, demonetized her silver coins. France ceased coinage of silver coins. For a time the excess silver on the market was quickly taken up by Germany and Austria-Hungary, who needed the metal to meet the demand of their people for a hard money.

1. France paid Germany $54,600,000 in gold coin. Laughlin, History of Bimetalism. D. Appleton and Company New York. Page 136.

But by 1926 things had changed. India, in accordance with a government decree was disposing, though not as fast as originally planned, of her excess reserves of silver. France demonetized her coins in 1928 and French Indo-China, and Siam in 1929 and 1931 respectively. Production reached a higher point than ever before in history. This was partially due to the fact that Mexico, the chief producer, was at peace instead of in the midst of an internal revolution as she had been at the time of the world war. Supply exceeded demand, and the price of silver fell, reducing its value as a monetary base.

Silver is used to some extent in the arts, as jewelry and silver ware, and in industry, due to certain chemical properties. J. S. Lawrence in his article, "The Unimportance of Silver" , says that 1/5 of the annual supply of silver is used for industry. (1)

Silver Market

A second thing to consider is the facilities for the sale and transfer of silver. There are markets which deal in silver bullion as other markets deal in wheat. The L ondon market sets the price and the others base their prices accordingly. This is partly due to tradition for there is one silver brokerage house that ante-dates the bank of England 10 years. (2)

1. J. S. Lawrence, "The Unimportance of Silver" World's Work. August 1931.

2. The Silver Market. Department of Commerce 1932. Government Printing Office, Washington D. C. 1933

There are many other reasons; the wide spread of London banks and British interest, and the financial eminence of London and the pound sterling. London is the center of shipping and cable connections. Also it it a strong market because of the lack of speculation, as English brokers aren't allowed to work for themselves.

Mr. H. K. Hachschild ranks the markets as follows; Shanghai, Bombay, New York, and London. (1) New York is important because it is a market that allows dealings in futures. Shanghai is important because of the large speculation in foreign exchange and bullion in that market, being a broader market there is less chance of squeezes. All the markets are interrelated as members of one market buy and sell in the other markets.

The London market is controlled by four banking houses; Moratta and Goldsmith, Samuel Montague and Company, Pixley and Abell, and Sharps and Wilkins. Representatives of these concerns meet every week day at 1:45 and at 11:30 on Saturdays to set the price of silver. Each firm brings its orders from banks, brokers, buyers, and sellers, and the price is determined by supply and demand. The price is given in pence per standard ounce.

1. Department of Commerce Bulletin. The Silver Market, 1932. Government Printing Office, Washington, D.C.

(standard ounce equals .925 grains fine) The commission is paid on the purchase, not on the sale. It is set at 1/8 of 1% when the price is over 21d. per standard ounce and 22s. per 10,000 standard ounces when the price is 21d. or less. One pound is the minimum for buyer's fee. It is an unwritten law among London brokers to execute all selling orders at prices fixed at the next fixing, but they don't agree to buy at the market. In regard to delivery, a buyer for spot gets delivery within 7 days at theoption of the seller. Buyers in futures receive delivery two calendar months from the date of contract. No days of grace are allowed. In the case of buyers of options, delivery in one month or more is usual, the price depending on the price of futures.

Source of Silver Supply.

The last thing to determine is the source of supply. Most of the silver is found in the western hemisphere, Mexico being the chief producer. (1) The United States and Canada both mine silver, also the South American countries to some extent. Silver, unlike many things, is very hard to destroy, even through chemical use, so the supply, with constant additions of newly mined silver is always increasing.

1. Mexico, United States, and Canada, combined, produce over 70%. See section on Mexico.

With these comments as a background, we are ready to analyze the Silver Purchase Act. We shall look at the United States and see what led her to pass the Act and what benefits she has received through its action. Then we shall take up the effect of high silver prices on China, with silver as her currency; Mexico, the chief producer; and India, the chief consumer.

INTRODUCTION.

In 1929 the New York Stock market crashed, leaving behind it a depressioned people. Business slowed up or stopped and prices fell. The value of the gold dollar rose, but the price of silver fell along with commodity prices. On December 3, 1932, silver reached the low of 24½¢ per ounce. (1). The first reaction of people in a depression is to repent, as though they had done something wrong. The second thing they do is to look for a way out. They reach a stage in which they are willing to do almost anything to start business again. A group of economists in New York started a movement known as Technocracy. Other forms of socialism and communism sprang up. Among the various groups that thought they had a cure for the depression were the Senators from the silver mining states of the West. (2). They believed that if the price of silver were raised, all other troubles would be over. The price of silver had been falling for some time and had reduced China's international purchasing power to nearly one-half. (3).

1. New York Times, December 3, 1932.
2. Statistical Abstract of United States, 1933, Department of Commerce, - 1926-$.533. 1930--$.282.
3. Silver mining States, - Utah, Idaho, Montana, Arizona, Colorado and Nevada.

The silver interests thought the way to raise the price of silver was for the government to buy large quantities or to use its influence to create a demand for silver.

Attempts of Silver Interest to Raise Silver Prices.

They made several suggestions. Some resolutions were passed by Congress, only to be ignored by the President. Among these resolutions were proposed loans to China and plans for an International Economic Conference on silver. It was also suggested that we re-design our silver money to make it more popular. (1) On February 20, 1931, the Senate adopted a resolution requesting President Hoover to negotiate with foreign governments with a view to stop silver bullion sales and melting up, or debasement of silver coins by those governments. They also suggested that he call a conference to discuss the uses and status of silver as money. (2) President Hoover refused.

The silver interests in the United States were not discouraged. In 1933 they continued the fight with more plans and suggestions; many of them never getting out of the committee. On March 9, 1933, Congress passed the Emergency

1. Leo Drew O'Neil. The New Era in Banking. Boston University. Page 97.
2. Neil Carothers, The Senate Silver Racket. North American Review. January 1932.

Banking Act, giving the President permission to "investigate, regulate, or prohibit foreign exchange." The Thomas amendment to the Agricultural Relief Act, passed May 12, 1933, authorized the President "by proclamation to fix the weight of the silver dollar in grains nine-tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies and to provide for the unlimited coinage of such silver at the ratio so fixed". (1) It also allowed the President to accept for a period of six months from the date of passage, silver at a price not to exceed 50 cents an ounce in the United States, in payment of foreign debts, the total amount not to exceed $200,000,000. The act also provided for the issuance of silver certificates to equal in total the amount of silver received from abroad. This was only the beginning.

In May, at the International Chamber of Commerce meeting in Washington, Senator King of Utah, attending as an "unexpected guest", persuaded the session to

1. Leo Drew O'Neil. The New Era in Money. Page 98. Boston University. 1934.

approve a resolution urging an international conference on silver. None of the delegates were particularly anxious to have the conference. Japan finally offered to ask the Tokio Government to consider having the conference, but the Japanese refused. China gave up the idea of a silver convention.

Nevertheless, when the World Economic Conference met in London on June 12, 1933, Key Pitmann, acting as representative of the United States, presented a resolution on silver. It asked that the nations concerned prevent debasement and limit arbitrary sales on world markets. The nations were also asked to remonetize subsidiary coins if it seemed advisable, and establish a 4/5 gold backing and 1/5 gold or silver for currency. This agreement was signed on July 22, 1933.

O'Neil summarizes as follows the results of this act. "By the terms of this pact, India, which possesses enormous stocks of demonitized silver, agrees to limit its sales to an average of 35,000,000 ounces annually for a period of four years; Spain also agrees to restrict its sales to an average of not over 5,000,000 ounces per year. China agrees not to sell any. In return the leading silver producing countries of the world, Mexico, United States, Canada, Peru and Australia--covenant not to sell any

silver. They also agreed to purchase annually for monetary purposes 35,000,000 ounces per year from their mine production". (1).

THE PRESIDENT'S PROCLAMATION OF DECEMBER 21, 1933.

Less than six months later, on December 21, 1933, the President of the United States issued his Proclamation on Silver in which he says that, "In connection with the London Agreement, by power invested in him by the Act of May 12, 1933, and to stabilize domestic prices, the various mints of the United States shall receive all silver mined subsequent to the proclamation for coinage deducting 50% as seignorage". These stocks of silver are not to be disposed of until December 31, 1937. The Secretary of Treasury is authorized to "provide regulations to carry out the purpose of this proclamation". This plan would cause the United States to purchase 24,421,410 ounces annually from domestic supply on terms equivalent to 64¼ cents an ounce, this being slightly more than 20% above the open market. (2).

The Boston Transcript summarized the advantages of this Proclamation as described by the proponants in the following way. First, a large increase in foreign trade will result. Second, world silver prices will be stabil-

1. Leo Drew O'Neil-"The New Era in Money". Page 100-Boston University.
2. National City Bank Bulletin. January 1934.

ned at 64¢ an ounce. Third, high silver prices will increase foreign buying power, and fourth, domestically there will be a boost in commodity prices. Of course they pointed out the aid to the domestic mining industry. (1)

The immediate effect of the proclamation was a rise in silver exchange both Chinese and English. (2) The price of bar silver rose 1/2 pence and futures in the New York market rose to 15¢ and 17¢ above the day's price. At this time, the future effects were doubtful, but could hardly be as great as the proponents expected.

Mr. Roberts of the National City Bank, in discussing the bill, says, "as far as the supply of money is concerned, the purchase of 24,421,410 ounces of silver annually, half to be coined, and half to be retained in the Treasury, will involve the issue of only $ 15,500,000 in new silver dollars, a negligible sum in comparison with the total of over $5,800,000,000 of money in circulation. Moreover, even this increase in the supply of

1. Boston Transcript, December 22, 1933, Page 1.

2. Boston Herald, December 22, 1933.

Exchange Quotations.

	Opened	Closed
Sterling	5.09	5.12
Shanghai	36. 7/8	38. 5/8
Hongkong	33. 1/4	34. 3/4

money is unlikely to affect correspondingly, the volume of money in circulation, for experience has shown time and time again that money, put out in excess of the requirements of trade, promptly lodges in the bank and flows back to the Treasury as fast as it is issued". Mr. Roberts continues his discussion of the effect of this government purchasing by showing its effect on the price of silver. "The extent to which the new plan may be expected to affect silver prices is also highly problematical. Prices to domestic producers will be raised, of course, by some 50%. For the rest, however, prices will be benefited only to the extent that the Treasury purchases will relieve the market of the American domestic production, which is a comparatively small proportion of total world production, the round figures for 1932 being 24,000,000 ounces for the United States, against 165,000,000 for the world total". (1). In closing his article, he adds that while the London Agreement restricted governments, there is nothing to prevent the private holder from selling, if the price proved attractive. This point, though trivial at the time, proved one of the causes for ruin in the silver market.

1. National City Bank Bulletin, January 1934, - Page 11.

On January 11, 1934, the Gold Reserve Act made provisions, "to facilitate the acquisition of silver". The President, in his message to Congress on May 22, 1934, said we must, "broaden the metallic base of our monetary system" and "stabilize the purchasing and debt paying power of our money". He also recommended that Congress "increase the amount of silver in our monetary stocks with the ultimate objective of having and maintaining one-fourth of the monetary value in silver and three-fourths in gold". These monetary moves, especially the last one, were decided steps ahead for the silverites, and with these victories they were even more determined to push a bill through Congress.

There were two bills which had been presented to the Senate and House respectively. The Dies Bill originated in the House and was passed by a large vote. The Senate Bill came from the Agricultural Committee and received the unanimous vote of that body. Both of these bills were quite radical in their nature and had been a menace to the newly established gold standard.

After much discussion, a bill was agreed upon which would satisfy both the radicals and conservative interest. One of the chief differences between the original bills and the one as finally drafted, was that the first bills were mandatory and the accepted bill was at the discretion of the President and Secretary of the Treasury.

THE SILVER PURCHASE ACT.

The Silver Purchase Act of 1934 was passed by Congress on June 19, 1934. The act itself contained eight sections and included an amendment to the Revenue Act of 1926. It re-established silver as a backing for our money on a 4:1 ratio. Section 2 states the main objectives,- "It is hereby declared to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States, should be increased, with the ultimate objective of having and maintaining one-fourth of the monetary value of such stock in silver".

Section 3 explains that as long as the stock is less than this, the Secretary of the Treasury is "authorized and directed to purchase silver, at home or abroad, for current or future delivery with any direct obligation, coin or currency of the United States, authorized by law, or with any fund in the Treasury not otherwise appropriated, at such rates at such time, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest: Provided that no purchase of silver shall be made hereunder at a price in excess of the monetary value thereof; and Provided further, "That no purchases of silver situated in the Continental United

States on May 1, 1934, shall be made hereunder at a price in excess of 50¢ a fine ounce".

Section 4 provides for the sale of silver "whenever and so long as the market price of silver exceeds its monetary value or the monetary value of the stocks of silver is greater than 25 per centum of the monetary value of the stocks of gold and silver".

Section 5 deals with the issuance of certificates backed by the silver purchased. It reads, "The Secretary of the Treasury is authorized and directed to issue silver certificates in such denominations as he may from time to time prescribe in a face amount not less than the cost of all silver purchased under the authority of Section 3." It goes on to say that the certificates must represent "An amount of silver in bullion and standard silver dollars of a monetary value equal to the face amount of such silver certificates". These certificates are "legal tender for all debts" and shall be redeemable on demand at the Treasury of the United States".

Section 6 deals with the enforcement of the Act. It gives the Secretary of Treasury authority to "investigate, regulate, or prohibit, by means of licenses or otherwise, the acquisition, importation, exportation, or transportation of silver and of contracts and other

arrangements made with respect thereto".

Section 7 permits the President, whenever such action is necessary, to effectuate the policy of this Act by Executive order to require "The delivery to the United States mints of any or all silver by whomever owned or possessed"..."Provided that in no case shall the value of the amount returned therefore be less than the fair value at the time of such order of silver required to be delivered as such value is determined by the market price over a reasonable period terminating at the time of such order".

Section 8 is an amendment to the Revenue Act of 1928. (1), and places a tax on all profits received from "transfers of any interest in silver bullion, if the price for which such interest is, or is to be transferred, exceeds the total of the cost thereof and allowed expenses, 50 per centum of the amount of such excess".

The last five sections deal with the interpretation of terms used in the Act, the setting aside of $500,000 for carrying out of the Act, and the right to amend or repeal

1. Schedule A of title VIII of the Revenue Act of 1926 as amended.

the act at any time. The last section repeals any previous acts not in accord with this act. (1).

COMMENTS FOLLOWING THE ACT.

Between the time this act was originally introduced into the Congress, and the day it was passed, there was a good deal of discussion as to its relative advantages and disadvantages. In the National City Bank Bulletin we find the following, "The President in his letter of transmittal treats the new measure as a step toward concerted action by all nations, or at least a large group of nations, to establish a permanent measure of value, including both gold and silver", for a "world standard". "To arrive at this point", he says, "we must seek every possibility for world agreement, although it may turn out that this nation will ultimately have to take such independent action on this phase of the matter as its interests require".

Mr. Roberts continues, "The President is carrying out a compromise. He wants to proceed by the orderly method of international cooperation. Presumably he hopes that increased purchases of silver may be gradually made without disturbing the gold standard and that they will support and raise the price of silver in world markets, thus making the international action more feasible". (2).

1. For complete act see Appendix
2. National City Bank Bulletin, June 1934. Page 92.

One of the first difficulties brought up by those who opposed the silver legislation was the possible effect it might have on the gold standard.

H. M. Fleming says, "One of the conjectures about the meaning of the silver move is that with the gold flow to this country slowing down, heavy silver purchases by the Treasury in London would have the undesired effect of driving sterling up. (1).

Some believed the silver act would serve as an "instrument of monetary warfare". They believe that by "raising the price of silver, Japan could be injured, as it was so closely related to China, and purchased so many products there, by raising the price of silver, Japan's depreciation of the yen could be offset." The argument was that Japan, by depreciating the yen, had been able to dump a flood of cheap manufactured goods on our market, and since it appeared impractical to engage in a competition of currency depreciation based on gold, the best way to meet this situation was to deflate Japan through a rise in the price of silver. (2).

1. Christian Science Monitor, The Week in Wall Street. Harold M. Fleming. December 16, 1935.
2. The Silver Fiasco. Elliott V. Bell. Current History. January 1936.

They also talked of the possibility of increased supply due to opening of mines which had been closed when prices fell. Others feared the inflationary effects an increased amount of currency might have. Some even worried about the reaction it might have on our trade. Again there were those who thought it was just a move to help the silver mining interest.

But the silver interest knew it was a good step. Let us look for a minute at some of the remarks made by the silverites when discussing the possibility for improvement they saw in the act. On August 1, 1933 Senator Key Pittman in a broadcast from London said, "This will restore the purchasing power of the people of India, China, and the rest of the Orient, who constitute over one-half of the people of the world. With this purchasing power restored, the surpluses of other nations of the world will quickly disappear and prosperity will be upon us before we can realize it. (1). As early as January 24, 1933, Senator Wheeler had said in speaking of the rise in silver prices that, "it would restore the purchasing power of 60% of the people of the world who live on the silver basis." (2). Sir Henri Deterding claimed that the low price of silver is responsible for"underconsumption of commodities" because

1. New York Times Editorial, Nov. 10, 1935.

2. Today. April 28, 1934. Raymond Moley. Editorial.

it reduced the purchasing power of 50% of the people of the world. On August 12, 1934, Senator Wheeler said the reason why raising the prices of silver would, "prevent manufacturers in Japan and in Chinese ports from dumping their manufactured goods into the United States over our tariff walls" was that it would "raise the cost of production of competitors in silver-using countries".

Introducing his bill on April 10, Senator Thomas of Oklahoma says raising the price of silver would "open up the markets of silver-using countries to American exportable products. And Raymond Moley writes in the April 28 isse of Today, "It is unfair and unintelligent to try to laugh away the fundamental contentions of the silver advocates. They say truly that silver has been and is a more universal medium of exchange than gold. The whole Orient and most of South America have little else with which to buy things. When the price of silver is down, they cannot buy our goods". (1).

On December 22, 1933, G. F. Warren, one of the major influences back of the bill, argues that altering silver prices along with gold prices of any desired commodity price level may be obtained. In his book "Prices" he contends that it is possible to "obtain a more stable money

1. Today. April 28, 1934. Raymond Moley. Editorial.

based on two metals instead of one". (1).

This is a variety of opinion from a number of people but they all agree that a rise in the price of silver is essential. They seem confident that the United States silver policy will help the "Orient buy more goods from the United States and prevent the Orient from dumping goods on us. The combined results would do a lot to help home industry". This sounds very nice, but we must realize that it is impossible to expect the Orient to buy from us unless we buy from them.

They say very little about the help it would bring to the mines, but they were quite conscious of the mines when they fought for the silver policy.

When the Act was passed it was believed by some that the Treasury would, in all probability, not do a great deal in the near future, but we see that even before the Act was passed, the Secretary of Treasury had started buying silver. The Boston Traveler for June 21, 1934, carries the following article. Secretary Morgenthau today disclosed the Treasury was buying big quantities of silver even before President Roosevelt signed the bill calling for such purchases. Administration of the bill will not be only willing, but enthusiastic, he said, explaining that for several weeks past, extensive purchases had been made through the exchange stabilization fund. His statement coincided with an announcement that the government's

1. Boston Herald, December 22, 1933.

had passed the $3,000,000,000 and exceeded the collections of the corresponding period a year ago by a clear billion". (1).

On June 26, a week after the bill was passed, an Associated Press dispatch quotes Representative Dies (Dem Tex.) co-author of the plan, as announcing that the Treasury had already bought 70,000,000 ounces of silver. The same dispatch says it is reported elsewhere that the price paid for the above silver averaged 44¢ an ounce. Representative Dies said as an immediate result of the bill, the Bureau of Printing and Engraving was far behind in printing new silver certificates, to be issued on the basis of the metal. At 44 cents an ounce, the treasury must issue $30,800,000 in certificates immediately. The Treasury, according to Dies, would have to buy 1,244,000,000 ounces of silver, "counting the silver now owned by the government, this will give us about $2,058,000,000 of new silver certificates based on silver we must require. This amounts to nearly one-half of the present outstanding currency and means a marked currency expansion, with a reserve backing of about ten credit dollars for each

1. Boston Herald, June 21, Page 1. 1934.

silver certificate dollar issued under this act." (1)

Mr. Roberts of the National City Bank estimated that the Treasury must buy $1,300,000,000 worth of silver. On April 30, 1934, the gold in the Treasury as backing for our monetary unit was $7,756,000,000. In order to establish a three to one ratio, we must have $2,585,000,000 of silver. The stock of silver at that time was $540,000,000 silver dollars and $300,000,000 fractional coins. This leaves $1,745,000,000 to be acquired. At $1.29 an ounce, this would be about 1,350,000,000 ounces. (2)

This is a lot of silver to buy when we consider the world production for 1933 was 250,000,000 ounces. (3) The buying of silver under the President's Proclamation of December 21, 1933 had only a slight effect on the foreign silver market, but the purchase of large amounts of silver in the world market would naturally raise the price of silver. It rose slowly at first, but by January 1935 had reached $.54 13 an ounce. (4) Consequently, those who buy, sell, or use silver to any great extent either as a commodity or as a monetary unit, will react to this rise.

1. Boston Traveler. June 26, 1934.

2. National City Bank Bulletin. July 1934. Page 111.

3. Carothers, Neil. Silver, A Senate Racket. North American Review. January 1935.

4. Handy and Harman, 20th Annual Review of the Silver Market. 1935. Bandick Press, Inc. New York 1936.

In studying the effect of the rise in the price of silver, due to the Silver Purchase Act, we will for purposes of analysis, start with the United States. We will trace her actions through the months following the adoption of this policy and interpret its reaction on foreign trade and foreign exchange, our good will abroad, and the country as a whole. This last item will be broken down into various groups within the country as the silverware manufacturers, the jewelers, the industries using silver in the process of production, the mining industry, and the average citizen.

Then we shall consider the foreign countries as mentioned previously. There are three we shall take up because of the distinct types they represent. Mexico is important because she is the chief producer. At the time the Act was passed she was a country on the silver standard, so we will consider the result on her monetary system and reaction of increased demand for silver on general prosperity of the country and on her import and export trade.

India, being a consumer of silver only as a commodity though a very large consumer of silver, we must know the reason for her demand and see what effect the rise in price had on that demand.

China was the largest country still on the silver standard in June of 1934. For this reason, this country is perhaps the most important of the three. In order to get a complete picture of the situation, we must understand a little about the people of China and their way of doing things. With this knowledge we will follow her attempts, through a period of a year and a half, to keep her balance with ever-rising unstable silver prices.

With a complete picture of the definite results of this artificial rising in price, based on actual facts, we will be able to determine the value of the Silver Purchase Act of 1934, both in the United States and abroad.

THE UNITED STATES.

Early History.

The Silver Purchase Act of 1934 - Silver for the United States Treasury. We must realize this is not the first time silver has been used as part of the monetary backing of the United States currency. Legally, we have been on a gold standard only since 1900. The first reference to the use of silver in the United States is with the establishment of a mint in Massachusetts in 1652. John Hull, the manager says, "Upon occasion of much counterfeit coin brought in the country, and much loss

occurring in that respect, (and that did occasion a stoppage of trade), the General Court ordered a mint to be set up. And they made choice of me for that employment and I chose my friend, Robert Saunderson to be my partner, to which the court consented". (1). This mint was subject to court order--the first being May 27, 1652 declaring that "all psons whatsoever haue liberite to bring unto the mint house, at Boston, all bullion, plate or Spanish Coyne, there to be melted and brought to the alloy of sterling siluer by John Hull, Master of the mint & his sworene officer, & by him to be coyned into twelue pence, six pence, & three pense peeces", etc. (2). The Court had trouble with the mint over the subject of profit, so the Court appointed a committee to deal with the mint. A seven year contract plan was set up. The mint ceased operation in 1684.

The Articles of Confederation gave the United States the power to regulate its currency. (3). The same year Massachusetts passed an Act for the establishment of mint to coin gold, silver, and copper, but only copper was coined. In the next few years several plans for a currency

1. Crosby, Early Coins of America. Page 31.
2. History of American Coinage. David K. Watson, Page 45.
3. Articles of Confederation, July 9, 1778.

were suggested. All of them were modification of the plan we have now. The constitution adopted in 1787, gave Congress the right to define and coin money, and prohibited the coinage by the States. (1). At the first Congress, Hamilton made a report on the currency situation. On April 2, 1792, Congress passed an act providing for a mint, permitting free coinage, all coins being legal tender, and setting the ratio of gold to silver at 15:1. (2). This undervalued gold, so little gold was brought into the mint and silver became the metal for common use. The following year Congress passed an act allowing the circulation of foreign coins at stated rates of value. (3).

1. The Constitution of the United States:- Article 1, Section 8. "The Congress shall have power, to coin money, regulate the Value thereof, and of foreign coin, - Article 1, Section 10 provides that:- "No State shall coin Money; emit Bills of Credit; make any thing but gold and silver Coin a Tender in payment of Debts:---"

2. The Mint Act, April 2, 1792. Section 11; "That the proportional value of gold to silver in all coins which shall by law be current as money within the United States, shall be as fifteen to one, according to quantity in weight, of pure gold or pure silver;"

3. O'Neil--Appenda. Page 7--Act of February 9, 1793. "Modified the existing valuations of foreign coins. This act further provided that foreign coins, gold and silver, were to pass current and be legal tender.

By order of President Jefferson, in 1806, Madison wrote the following to the Director of the Mint, "The President directs that all the silver to be coined at the mint shall be of small denomination so the value of largest shall not exceed half a dollar". (1).

The agitation for a single standard started in about 1820. Mr. Ingham, then Secretary of the Treasury, studied the situation and reported that a single standard was better and that it should be silver. From 1829 until the passage of the Act of 1834, there was continual discussion of the subject of a monetary standard in Congress. White, a man who had once been in favor of bimetalism, suddenly changed his views and introduced the bill of 1834 for the establishment of a mint ratio of 16:1. (2). This undervalued silver and it was demonetized. No silver was brought to the mint and we were practically on a single standard.

1. History of American Coinage. David K. Watson. Page 48.
2. O'Neil--Appenda, page 1a--Act of June 28, 1834.- "The first of the two acts, commonly referred to as the gold Bill, enacted by the Congress on this date changed the weight of the gold dollar from 24.75 grains to 25.8 grains of standard gold. The fineness was thus altered from .916 2/3 to nearly .900. The purpose of this act was to cause gold to circulate. The amount of pure in the silver dollar remained unaltered. The ratio between these two metals was, therefore, reduced from 15 to 1, to 16.0002 to 1.

By 1873, most of the silver dollars were out of circulation. At that time an act was passed amending the mint and coinage laws, but no mention was made of silver. The progress was slow and in 1875 an act was passed limiting the legal tender of silver coins to $5.00. The silver group were persistant and in 1875 a bill was passed which authorized the Secretary of the Treasury to issue silver coins of fractional denomination and standard value to redeem fractional paper currency issued in 1862 on the disappearance of silver coins from circulation. (1).

From that time on, silver became the question of the day. Both parties were divided within themselves on the matter of silver. Some of the republicans, like Senator Morill of Vermont, believed that "no approach could be made to genuine bimetallic currency, "both metals freely and equally circulating without the coop-

1. Hepburn- History of Currency in the United States, Appendix Page 497. Act of January 14, 1875-- To provide for the resumption of specie payments. "And on and after the first day of January, anno Domini, 1879, the Secretary of the Treasury shall redeem, in coin, the United States legal tender notes then outstanding, on their presentation for redemption, at the office of the Assistant Treasurer of the United States in the City of New York, in sums of not less than $50.00. MacMillan Company, New York, 1915.

eration of the leading commercial nations of the world." (1). They also went as far as to doubt whether it would be possible to adjust "feeble ratios" finely enough to prevent supply and demand from driving one metal or the other from circulation.

Blaine believed that the Constitution required Congress to make both gold and silver coins the money of the United States. In a speech in the Senate on February 9, 1878, Blaine says, "I believe that if Germany were to remonetize silver and the kingdoms and states of the Latin Union were to reopen their mints, silver would at once resume its former relation to gold. I believe the struggle now going on in this country and in other countries for a single gold standard would, if successful, produce widespread disaster throughout the commercial world. The destruction of silver as money and establishment of gold the sole unit of value must have a ruinous effect on all forms of property except thos investments which yield a fixed return in money". (2).

It became a contest between debtor and creditor. Representative Jones of Nevada says, "Three fourths of the homes and farms that stand in the name of the actual occupants have been bought on time, and a very large pro-

1. Beard. Contemporary American History. Page 120.
2. Beard. Contemporary American History. Page 121. MacMillan Company, New York, 1918.

portion of them are mortgaged for the payment of some part of the purchase money. Under the operation of a shrinkage in the volume of money, this enormous mass of borrowers, at the maturity of their respective debts, though nominally paying no more than the amount borrowed, with interest, are in reality, in the amount of the principal alone, returning a percentage of value greater than they received--more in equity than they contracted to pay, and oftentimes more in substance than they profited by the loan. (1).

Finally, in 1878, the silver party forced the passage of the Bland Allison bill in Congress. It authorized the Secretary of the Treasury to purchase not less than two million, nor more than four million, dollars worth of silver to be coined into dollars. (2).

1. Beard-Contemporary American History, P. 122.

2. O'Neil-- Appenda, Page 35- Act of February 28, 1878. This act gave the Secretary of the Treasury authority to purchase not less than $2,000,000 worth of silver, nor more than $4,000,000 bullion per month at the market price and to cause the same to be coined monthly as fast as purchased, into silver dollars of the weight of 412 1/2 grains troy of standard silver, as provided in the act of January 18, 1837. MacMillan Co. New York, 1918.

It was vetoed by the President and passed over his veto. Those opposed to silver also had an act passed prohibiting further retirement of legal tender notes. Also, that the Treasury, instead of cancelling them, should re-issue and keep them in circulation. Blaine says in discussing the act, "The people do not want a single gold standard, they want both gold and silver in equal honor, in whatever abundance the bountiful earth will yield them to the searching eye of science and to the hard hand of labor. The two metals have existed side by side in a harmonious, honorable companionship as money ever since intelligent trade was known. (1).

The Bland-Allison Act was not satisfactory, the ratio of silver to gold fell to 22.1 in 1887. (2). The silver party said it wasn't the act, but the government's appreciation of gold. The party replied that the mints were full of coined silver. So the silver interest passed another act in 1886 providing for the issue of silver certificates in $1, $2, $5.

Four years later the Sherman Purchasing Act proved another victory for the silver interests, only to be repealed three years later. The act provided

1. Cooke--The Economic Importance of Silver. Page 8.
2. Beard-Contemporary History. Page 121. MacMillian.
3. O'Neil-Appenda Page 37, Act. of August 4, 1886. The New Era in Money. Boston University 1934. The issue of silver certificates in denominations of $1,$2,$5 was authorized. The purpose was to put more silver into use.

for the purchase of 4,500,000 ounces of silver monthly and the issue of notes to be redeemable in either gold or silver. (1). It became necessary for the Act to be repealed in 1893, due to the departure of India from free and unlimited coinage.

The campaign issue of 1896 was silver. Although students of political science tell us the issue was deeper and really a clash between "Great wealth and the lower middle and working classes." (2). The republican party convention delegates voted 812-110 in favor of the platform which declared its opposition to silver except by international agreement. The minority in favor of silver left the convention but the remaining elected McKinley to represent them.

The Democratic party convention was perhaps one of the most stormy up to its time. It was at this convention that William Jennings Bryan delivered his famous

1. O'Neil-Appenda Page 38-Act of July14, 1890. Known as the Sherman Silver Purchase Act. Section 1, directed the Secretary of Treasury to purchase silver bullion to the aggregate amount of 4,500,000 ounces, or so much thereof as might be offered each month, at the market price thereof, not exceeding $1 for 371.25 grains of pure silver bullion, treasury notes of the U. S. to be prepared by the secretary of Treasury in such form and of such denominations (not less than $1 nor more than $1,000) as he might prescribe.

2. Beard-Contemporary American History. Page 164.

speech defending bimetallism in which he concludes by saying, "you shall not crucify mankind upon a cross of gold". After a fiery session, Bryan was elected Democratic nominee for the Presidency. The campaign was a bitter and expensive one for both parties and ended with McKinley victorious. The Republicans did not push the parity act but on March 4, 1900, the act was passed. (1). In the next fifteen years the silver interest group was a thing of the past. However, it came back very quickly at the time of the world war when silver prices were high and the demand was great.

England was badly in need of silver to maintain gold exchange standard in India. The United States had

1. Hepburn-History of Currency in the United States. Appendix Page 498. Act of March 14, 1900--to define and fix the standard of value to maintain the parity of all forms of money issued or coined by the United States to refund the public debt, and for other purposes. "Be it enacted, etc. that the dollar consisting of 25 3/10 grains of gold nineteen-tenths fine, as established by section 3511 of the revised statutes of the United States, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity value with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity".

a lot of silver dollars in the Treasury which Great Britian offered to buy. Here was a fine chance for the United States to get rid of her surplus silver but the Pittman Act was passed allowing the sale of not more 350,000,000 of the silver dollars at not less than one dollar per ounce of metal. Also the Treasury must purchase from the mines silver to coin into dollars at the original sale price. So the situation arose when the Unites States was buying silver at 65¢ an ounce to go into silver coins and $1.00 an ounce to go into dollars to replace those sold. The cash loss was $70,000.000. The metallic value at the time of sales was $200,000,000, the present $60,000,000, and the difference of $140,000,000 is an added loss. (1). We paid an obligation to the United States and got it back for our people.

This act caused an artificial market that had to be brought back to normal. Prices fell. Several countries had been forced on a paper standard during the war and had not returned to a metal standard.

As we mentioned before, in 1920 after the war crisis Great Britain reduced the silver content of her coins. France had ceased coinage of silver coins, but the excess was taken up for a few years by Germany, Austria,

1. Carothers. Silver, A Senate Racket. North American Review, January 1932.

Hungary, who needed silver to meet the demand for hard money. In a few years the Indian government began dumping silver on the market. France demonetized her silver coins in 1928 and French Indo-China, and Siam, in 1929 and 1931 respectively. This increased the supply as did an increase in world production. Mexico, the chief producer, was at peace instead of in the midst of an internal revolution as she had been at the time of the war.

So the world entered the depression years following 1929 with the price of silver falling. Increased supply and decreased demand naturally forced the price down.

When the price of silver fell below 30 cents per ounce in 1931, the silverites in the United States saw their chance to have silver back in its own position again. In the introduction we have traced the early attempts of the silver group to legislate a silver program. Also we have seen their victory at the London Economic Conference, the Proclamation of the President on December 21, 1933 ordering the Secretary of Treasury to buy newly-mined silver in the United States, and the climax of all their efforts, the Silver Purchase Act of June 19, 1934.

Efforts to Execute the Act.

We have previously discussed the contents of this act, but before we turn to an analysis of the effect of

the government's silver purchases on our industry, foreign trade, and commodity prices, let us see what has been done by the Government since June 19, to carry out the act and obtain its intended purpose.

On June 28, the President issued an embargo on silver exports. This was done to prohibit speculation in silver. "Many people expect silver prices abroad to rise to such a point that more money can be made by selling there than by taking the 50¢ an ounce top price authorized for Treasury purchases here". The only exemption was for silver to fill obligation assumed before the orders were issued, silver belonging to foreign parties, silver that had been imported for prompt export, or silver of a fineness less than .8. (1).

The next move for silver came on August 9, 1934, when the President issued a proclamation nationalizing silver which read, "I, Franklin D. Roosevelt, President of the United States, do proclaim and direct that each United State mint shall receive for coinage as addition to the monetary stocks of the United States, as hereinafter determined, any silver which such mint subject to regulations prescribed hereunder by the Secretary of Treasury, is satisfied,was situated on effective date hereof in the Continental United States, including the territory of Alaska".

1. Boston Transcript, June 29, 1934.

The Boston Transcript gave the following résumé of the executive order, "Its chief purpose is to control and prevent any further speculation in silver. By ordering that all silver in the United States, except silver coin, and other exempted classifications must be delivered to the Government within ninety days, and by fixing definite terms which the mints will pay for such delivery, the Federal Government proposes to show hoarders or speculators in silver they have nothing to gain by holding out for a higher price. On the contrary, if they fail to deliver their silver within the appointed time, they will become subject to prosecution". (1). The terms of purchase are 50.01 per ounce. This may be compared with the nationalization of gold in January of the current year.

The announcement caused suspense of open market for silver and trading in silver futures. Wall Street expressed the belief that the government was pursuing the policy to satisfy the agitation for inflation. Stocks rallied after the nationalization from 1 to 6 points. (2). On August 25th the English brokers in silver reported large profits on the sale of silver.

1. Boston Transcript. August 9, 1934.
2. New York Times, August 9, 1934.

In October, China negotiated with the United States trying to pursuade them to alter the purchase program to steady prices. Silver had been leaving China in large quantities. The particulars of this are discussed under China, so we will just note here that the United States refused to give China any satisfactory reply. China was forced to place an embargo on silver exports.

On April 10, 1935, the Treasury announced the price of 71.11 for newly mined silver, and two weeks later the price was raised again to 77.57 cents an ounce. The last jump pushed the market price to 81 cents per ounce.` This new high for silver prices had an injurious effect on the Mexican monetary system. Although this is taken up in the section on Mexico, - we must mention that Mexico was forced off its silver standard. All coins were called in and paper money was issued in its place. It had become profitable to melt the coins and sell the bullion to the United States. When the United States realized that foreign coins were being imported and melted down, the Secretary of Treasury, Morganthau, issued a decree prohibiting except under license, the entry into United States of foreign coins and other forms of silver used as money. Only coins with a monetary value at the time of

entry of at least 110% of the market value of their content, were allowed to be imported.

During the summer of 1935, the price of silver slumped twice. On July 6, and again on August 14, the Treasury had to buy 25,500,000 ounces to prevent further collapse. (1). The market settled at 65 5/8¢ per ounce in August and remained constant until December.

Toward the end of October, the price of Chinese exchange became very unsteady. On November 4, 1935, the Chinese government went off the silver standard in favor of a managed paper currency. This was quite a step for China, considering the number of people using silver, though internationally, China had been off the silver standard since the embargo was placed on silver a little over a year previously.

In December, the United States failed to put a bid in at the London stock market. On Saturday, the seventh of December, the United States was very slow in getting in its bid, and on the following Tuesday, December 10, 1935, the United States failed to put in a bid at all.

1. New York Times--December 15, 1935.

The committee that usually set the current price of silver waited all day, but still no bid. They were finally forced to disperse without setting a price on silver. It was the first time since 1914 that there had not been a price determined for silver. The following account of it appeared in the New York Times, "In the future market at Montreal, prices broke the full limit allowed (5 cents an ounce) on three successive days; in New York quotations were stepped down a cent a day; in Bombay minimum prices were fixed, and in China, a government spokesman bitterly accused our Treasury of making an "anti-British gesture" of which China is the goat". (1). During the last four days of the week, the Treasury bought small amounts of silver in London at successively reduced prices. The market had broken and in a few weeks was down to 44¢ an ounce, the price level of December 10, 1933. (2).

Mr. Morganthau said, when asked about the future policy of the United States Treasury, - that the purchase of silver would continue, although he admitted it would be less concentrated.

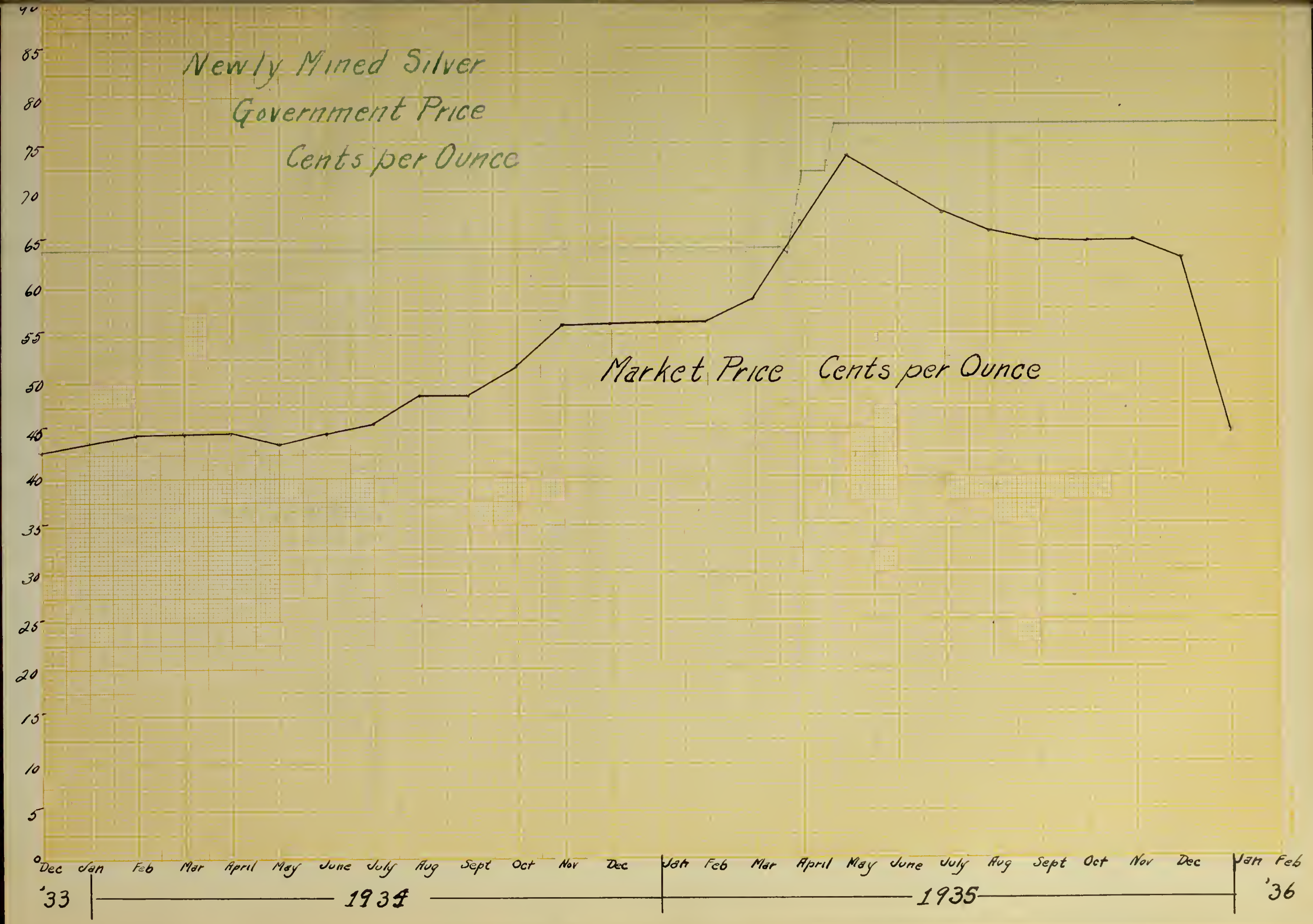
1. The New York Times, December 15, 1935.
2. See silver prices in Appendix.

In discussing the subject of the government's withdrawal from the London market, the question arises, Where is the United States going to get its silver? The Christian Science Monitor says, "Doubtless the source is China, where the Chinese government is disposing of its nationalized hoard by private treaty. Neither will admit it: as an active trader in the metal the United States Treasury must disguise its operations. China's secrecy is due to the fact that it is parting with a metal that 400,000,000 Chinese people cherish." Whether this is true is hard to say, but it is the general opinion that the government is continuing its buying.

If we view graphically the rise and fall of silver prices, we see that they were forced up by the belief that the United States was going to push the price to $1.29 an ounce. In the spring of 1935 each rise in the government price of silver resulted in a corresponding rise in the market price, but confidence failed and the market price fell. (2)

From this brief history of the act we can see it has not had any permanent effect on the price of silver. However, this artificial flight of silver prices up and down, in the relatively short period of two years, must have had some effect on the silver mining industry and perhaps even on the country as a whole. The extreme nature of the case merits an investigation.

1. Christian Science Monitor. December 16, 1935.
2. See graph on next page.


Newly Mined Silver
Government Price
Cents per Ounce
Market Price Cents per Ounce
85
80
75
70
65
60
55
50
45
40
35
30
25
20
15
10
5
0
Dec Jan Feb Mar April May June July Aug Sept Oct Nov Dec Jan Feb Mar April May June July Aug Sept Oct Nov Dec Jan Feb
'33
1934
1935
'36

The Silver Mining Industry

The silver mining industry is perhaps the first place we should look for the effects of the rise in prices. In the Boston Transcript, four days after the government started buying newly-mined silver, we find the following caption, "Spurt of Activity at Nevada Mines". The article reads, "In a hundred camps there is activity today such as Nevada has not known since Jim Butler's runaway burros led him to the rich silver deposit at Tonopah and started the wild series of events climaxed by the discovery of Goldfield. Nothing like a boom is apparent, but orderly preparations are under way to reopen abandon silver properties and develop huge ore bodies. (1)

The United States mines produce about one-fourth of the world's supply of silver, the amount having decreased in the last thirty years prior to the passage of the Silver Purchase Act.

Mine production of silver in the United States
as compared with the world.
(Ounces)

Year	World	U. S.	Percent of Total.
1900-4	168.0 Mil.	56.1 Mil.	33.3%
1905-9	188.1 "	55.2 "	29.3%
1910-5	285.5 "	64.1 "	22.5%

1. Boston Transcript, December 26, 1933.

1915-9	208.1	69.1 Mil.Oz.	37.3%
1920-4	254.0	60.6 "	29.1%
1925-9	254.0	61.8 "	2[illegible].3% (1)

This chart shows that except for the war period, the United States production has been steadily downward. In 1934 the first year after the government started buying, we produced 26.4 million ounces. The next year, our output increased to 38.4 million ounces although the world production had increased only from 185.4 million to 206.4 million.

Our silver production is mainly a by-product of copper and lead. When high prices of silver cause a demand for that metal we tend to have copper and lead in excess which is a detriment to market for these metals. Without going into a study of the various types of ores, we can see that silver contributes a comparatively small amount of the revenue received by the mining industry.

Us	Total production	$	% of revenue
Lead	459.0	23.2	5.1
Copper	79.8	10.0	12.5
Silver	301.2	8.	2.7
Gold	41.9	.9	2.1 (2)

1. Leong, Silver, An Analysis of Factors affects its price, Page 35.
2. Leong, Silver, An Analysis of Factors affects its price, Page 64. Brookings Institute, Washington, D. C. Institute of Economic Publication.

While it is true that in recent years the United States has produced about 1/4 of the silver of the world, let us look at the relative importance of silver mining and manufacturing in relation to other mineral products and other lines of manufacturing.

In the mining of silver as it is a by-product, the computation of the number employed is only a matter of estimate. The Statistical Abstract gives the number of people engaged in the extraction of minerals as 2% of those gainfully employed. Of this 2% less than 18% are engaged in the extraction of silver and gold ore, that is .4% of 1%. (1) In response to those who thought that an improvement in silver prices would put a lot of people back to work, we must say that they were probably right, but that in proportion, the number is relatively small compared with those unemployed in other lines of business.

When we come to the manufacture of silver, the Biennial Census of Manufacture for 1931 gives those employed in the smelting and refining of gold, silver, and alloys of these as 803. This is infinitesimal when we realize there are 6,523,026 wage earners in all manufacturing industries. Of course, there are other forms of manufactur- which are directly affected by the price of silver. The silverware and plated ware manufacturers, as an industry are rated 109 by the number of people employed

1. Statistical Abstract, 1935. No. 57.

and 143 by the value of the products manufactured.

1931	Value of Product	No. Wage Earners
Silverware and Plated ware	45,814,831	11,077
All Industires	$41,350,464,564.	6,523,026
1929		
Silverware	30,452	5,007 (1)

Industrial Uses of Silver.

From the above analysis we see that silver is as a commodity relatively unimportant. World values, with wheat as 100, rate silver as 2.93, rubber as 12, and cotton as 53.6. (2) As an industry, silver rates below the peanut industry according to Carothers. (3)

There has been a great deal of speculating as to the future effect of silver price rise, but if it drops very low, as a reaction to a high price, all these mines will be closed and the miners will be no better off. They are already voicing their discontent. (4) "Condemnation has be n based on the grounds that although miners are being offered approximately 77 cents an ounce for their newly-mined silver, the Government appears to prefer to gamble on the world market and buy silver

1. Biennial Census of Manufactures for 1931. United States Government Printing Office, Washington, D.C. 1935.
2. Lawrence, J.S. The Unimportance of Silver. World's Work. August 1931.
3. Carothers, Silver, A Senate Racket. North American Review, January 1932.
4. The Christian Science Monitor, December 13, 1935.

at around 60 cents; that with the rise in the price of silver, the price of other metals which are mined in association with it have not been proportionately raised to afford much profit; and that the Government has made an ill gesture by its 50 per cent seigniorage charge of all silver entered at the mints for coinage.

Charles Henderson, head of the Denver office of the United States Bureau of Mines says, "Great advances in silver mining cannot be expected until the price of lead, zinc, and copper which are mined with silver, can be raised to such an extent that it will be profitable for the miner. Very little pure silver is being mined and unless the base ores found in association can be sold at good prices, mine operators will be losing."

In considering the industrial uses of silver, we find there are three main fields namely sterling ware, electro-plating, and photography. As to the relative importance, we find the following true since 1928.

Sterling ware industry	37%
Photographing	35%
Electro plating	15% (1)

A year by year study shows that there is a falling off of sterling ware and photographing in 1931 when quantity is considered, but an increase by percentage.

1. Leong, Silver, An Analysis of factors effecting its price. Brookings Institute. Washington D.C. 1935.

If we consider the effect of price on the amount of each of these, we will find that sterling ware business tends to increase with lower silver prices--but not to any great extent. The electro-plating industry is the more sensitive, decreasing a great deal with the silver price decrease.

The Photographing industry might easily be designated as a branch of the Chemical industry. One of the chief chemicals made from silver, is silver nitrate, and 80% of the silver nitrate made is used by the photographing industry. If we will look at the price, we can easily see what a problem it would prove to the motion picture industry where there is a constant demand for silver nitrate. (1). A study made by Leong shows that the rise in the production of this metallic chemical is paralleled by the motion picture industry.

We do not wonder that the electro-plating industry was stimulated by the increase in silver prices if we look at the market increase in the price of sterling. (2).

The 20th Annual Review of the Silver market of 1935--put out by Handy and Harman gives us the following account of the industrial situation. "We estimate

1. See Appendix
2. See Appendix

that 23,500,000 ounces of silver were absorbed during 1935 by the arts and industries in the United States and Canada, about 1,500,000 ounces less than in previous years. The use of silver in the manufacture of sterling silverware declined some 15% below 1934, but there was an increase of 5% in consumption for both silver plated ware and for chemical purposes and motion picture film. The amount employed by the dental industry remained practically unchanged, whereas the requirements of the jewelry trade showed a gain of about 10%".

However, Handy and Harman believe that the stability of the local market was due to the buying of the jewelers, so that perhaps jewelers might have bought more than they have used. In which case, this increase might not be justified. Continuing, "New uses for silver in industry, including the electrical field accounted for some increase in consumption over 1934, and further progress will undoubtedly be made as business continues to improve."

"We are informed that England used about 10,000,000 ounces in the arts and industries during 1935. The decline from the previous year's estimates of 13,000,000 ounces is because the latter figure is reported to have included some speculative purchases made by the trade

during 1934, probably in expectation of higher prices. As in the past, we have been unable to secure any segregation of date to indicate Germany's purely industrial consumption of silver. Furthermore, at the present time we are lacking up to date statistics of any sort from that country, and therefore, we have been obliged to use the 1934 figures as our only basis for Germany's 1935 silver consumption. We estimate the amount at 12,000,000 ounces". (1).

The sudden jump in price of bar silver had been hard on the silverware and jewelry manufacturers using silver as a raw material. They tried to secure an amendment to the silver purchase act allowing them to buy silver at a special lower price for use in production, but all their efforts were useless. Now they are in a very bad position. They must have silver, but they don't know whether to cut their prices or push them up. Within a month, the price of silver dropped 20¢, or nearly a third. The government actions will determine the price of silver and it is impossible to know what the government is planning.

The Business Week for June 1, 1935 carries an article listing four complaints of the silver ware dealers of the United States.

1. Review of the Silver Market for 1935. Handy and Harmon Pandick Press, Inc. Page 30-31.

1. Silverware prices have been forced up faster than consumer's ability to pay.

2. Plated ware and other products are substituted for sterling.

3. Manufacturers have to lay off workers, which adds to unemployment.

4. Old time reliable jewelers have lost sales. (1).

In looking at these accusations, we will have to admit that all of them are justified. The third, in regard to unemployment, - is perhaps of little value, for there would have been a certain amount of unemployment regardless of silver prices. However, we must agree that the silver purchase act has been hard on these who used silver in their business- whether directly as in the silverware industry, or indirectly, as in the motion picture industry.

Along this line, we see that there has been a great introduction of substitutes. Bronze and glass have substituted silver jewelry. Chromium and various monel-metals have replaced silver for metal household equipment.

GOODWILL

When we come to those indirectly touched by the price of silver--we must consider our government. What

1. Business Week. June 15, 1935. Page 22.

effect has the rise in the price of silver had to do with its welfare? If we think a minute we will realize that our pushing up the price of silver has had a marked effect on those concerned with silver. If the effect has been good, those who use silver will be pleased; if it has not, our good will has been hampered. In the case of Mexico, although the rise in the price of silver forced her off her monetary standard as we shall see later, the rise in the price of silver caused a period of marked prosperity for Mexico is a silver producing country. Consequently, there is no ill feeling between the United States and Mexico at the present time.

However, the actions of the United States caused consternation in Western Europe. There was considerable speculation as to the effect of silver purchases on the pound sterling. But whatever the result in the West, we must realize that the effect on the Far East is much greater, for China, at the begining of our purchasing policy was on the silver standard, silver actually circulated as money. Leonard T. K. Wu in the Far East Survey has referred to our program as "ruthlessly adhering to a program in the face of the opposition of practically every monetary expert in China". (1).

1. Bulletin of Foreign Commerce, October 1932. Article 35.

On May 21, 1935 there were ten countries whose coins were more valuable as bullion than as money. They were Bolivia, Chili, China, Costa Rica, Columbia, Hong-kong, Mexico, Peru, Salvador, and Uruguay. (1). The United States is a strong and powerful country, but no country can afford to have the ill will of too many countries.

The New Leader, an organ of the Independent Labor Party in England, calls the silver purchasing act, "worse than an earthquake". It claims that silver has ruined British commercial interest in China, and threatened the stability of India. (2).

FOREIGN TRADE

On the subject of foreign trade, both import and export of goods, we will remember that among the things the silverites promised of the silver purchase act--was the improvement of commerce conditions in the Far East. They said higher silver prices would keep out cheap Chinese and Japanese goods, but would increase their purchasing power from us through an appreciation of their money unit. Let us look at the government statistics and see what has happened in the last four years.

1. Commercial and Financial Chronicle-Volume 140. May 25, 1935. Page 3473.
2. Living Age. July 25, 1935. As others see us.--The Silver Racket, quoting the London economist. Page 466.

CHINESE TRADE
(Ten Month Period from Jan. 1. to Oct. 1.)

Imports.		Exports.
1932	48,538,566	21,691,614
1933	31,352,942	37,677,025
1934	37,723,998	60,540,944
1935	52,180,769	31,667,385 (1).

As indicated, these figures are for the first ten months of the respective years. At a glance they reveal that our imports from China have steadily increased during the four years so that in 1935, they had more than doubled the figure for 1932. We seem to be still buying from China, but we don't sell more. We did in 1934. The slight rise in the price of silver apparently helped China, for she bought 60 million dollars worth of goods from us, but by the next year, the tables had completely turned. We owed a balance to China as great as the one she owed us the year before. Not only have we lost our favorable balance of trade with China, but we have put China in a state of financial chaos that completely bound her as far as trade was concerned, both internally and externally. The Business Week for November 9, in discussing our foreign trade, says only two of our ten largest customers increased their business with us spectacularly this

1. Bulletin of Foreign Commerce, October 1934, Article 35.

year--Cuba and Mexico. In 1935, China dropped to almost one-half the level at which they stood in 1934, being completely off the big ten list. The silver drain and the unsettlement in the Far Eastern business is blamed. (1).

Eminent Chinese bankers realized that the arguments of the silverites were false. Mr. Li Ming, Chairman of the Bank of China and of the Chekiang Industrial Bank while visiting the United States in Sept. 1934, said, "The theory that, by raising the price of silver, China would be able to buy more in America, or America would be able to sell more to China, is not economically sound. The effect, if any, would be very short-lived, as China could not afford to pay for American imports of commodities with exports of silver because she needs all the silver she has for her medium of exchange.

America's purchasing power is not measured by the gold you possess, but is measured by the productivity of your national wealth. China, like every other country pays for her imports chiefly by her exports. The silver in his posession, no matter how big that amount, may be

1. Business week. Nov. 9, 1935. Foreign Trade Panorama. Page 25.

does not help much in her purchase abroad. She will have to depend upon her exports and her exports alone".

Mexico, our chief silver producer, has benefited by the rise in silver prices so that she is enjoying a period of prosperity. For this reason, she is doing considerable constructive work--which calls for materials from the United States and thus increases our export with her. Quoting the Business Week, "There is no new trade agreement with Mexico yet, but our large purchases of silver at the new high prices have brought prosperity to the Mexicans. With a big road building program requiring modern grading and paving machinery, the Mexicans are spending freely in this market. Only six countries bought more in the United States than Mexico in the first three quarters of this year." (1). When we consider the size of Mexico, this is a surprising statement.

Imports and Exports to Mexico. (2).

1932	33,318,596	48,583,566
1933	25,116,620	37,677,025
1934	30,648,440	46,345,598
1935	34,762,370	54,198,333

1. The Business Week, November 9, 1935. Foreign Trade Panorama. Page 22.

2. National City Bank Bulletin, October 1932 and Oct. 1935. Department of Commerce, Government Printing Office, Washington, D. C.

Since we are considering India in our discussion of the question, let us look briefly at her export and import trade with us.

Imports and Exports to India
From the United States
Jan. 1 to Oct. 1.

Year	Imports	Exports
1932	27,785,504	20,844,941
1933	33,748,167	14,798,594
1934	46,794,352	22,645,409
1935	53,147,050	25,561,514

These figures are interesting but not of vital importance in this case as India is not on a silver standard.

In summarizing, it will have to be agreed that the silver policy may have helped Mexico because she is a producer, silver is her commodity for the world market so a high price is always good news. However to those countries who used silver as a monetary unit, high prices of silver made little difference as far as giving them foreign purchasing power, and when it threw them off their standard, it disrupted commerce and cut down the trade they did have.

At the National Foreign Trade Covention held in Huston, Texas on November 18, 1935, we find the American exporters are quite concerned over the effect of the silver purchase policy on foreign trade, especially those who trade considerably with the Far East. The tobacco trade was damaged more perhaps than others. Their trade declined in one year from 83 million pounds to 25 million. (1) This decline was due in part to the poor exchange conditions caused by the silver situation in China.

1. Final Declarations of the 22nd National Foreign Trade Convention. Huston, Texas. Page 9.

This caused them to feel that the act was not only "against our interest, but destructive of good will in China toward the United States". (1)

Along with foreign trade, we might consider the reaction in foreign exchange. Of course China's foreign exchange has been a matter of guess-work since she placed the embargo on silver in October 1934. (2)

Foreign Exchange
Chinese Dollar

1929		41.9007
1930		29.9166
1931		22.4369
1932		21.7357
1933		28.5979
1934		34.0937
1935		36.5707
1936		34.2164
1935	January	34.9924
	February	36.5369
	March	38.2960
	April	38.7908
	May	41.0979
	June	40.4002
	July	38.6791
	August	36.8645
	September	37.6226
	October	35.6091
	November	29.6485
	December	29.4496

Since China has nationalized silver, Chinese exchange has remained low and unsteady, although the government is trying to keep it fairly stable.

In November, after the Chinese government nationalized silver, the New York Times expressed the

1. Elliston. Silver, East and West. Foreign Affairs. July 1935.
2. Survey of Current Business. January 1936. Page 32.

following with regard to Chinese trade, "All foreign traders agreed that the Chinese situation resolved itself into a question of exchange, but many exporters and importers said they would limit themselves to spot dealings until more definite predictions concerning the Chinese currency are possible." (1).

The purchase of large amounts of silver has, in London, made the dollar cheap and the sterling high in the United States. On February 8, 1935, sterling was selling in New York for $5.01½. (2).

The Foreign Trade Council of the United States, realized that without monetary systems and stable foreign exchange rates, there can be no revival of world trade on a normal basis. They go on record in the Final Declaration of their convention, "One essential step toward world recovery--only to be attained following at least a partial re-establishment of sound industrial activity--is the return to a sound and proven monetary system and the abandonment of further monetary experiments". Among the fourth specific measures it listed was, "Repeal of such laws as may require the further purchase of Silver for monetary purposes". (3).

1. New York Times. Nov. 10, 1935.
2. " " " Feb. 9, 1936.
3. Final Declarations of the National Foreign Trade Council Convention, Houston, Texas, November 18, 1935.

Effect on U. S. Currency.

As for the worries people held about the effect of our silver purchasing policy on the gold standard, this addition of silver has undoubtedly weakened our monetary base.

In a chart showing the Treasury's statement for a period of years, we find that the addition of silver as expected under the act, reduces the ratio of gold to all currency from 112.6 to 92.6. Mr. Roberts, of the National City Banks says, in discussing the change in our base, "It seems appropriate to consider the Treasury and Reserve banks as a central banking institution, similar to all of the central banks of the world, which by a process of evolution, have been developed to supply the currencies of the respective countries and to hold the final reserve of the banking systems. Considering the Reserve banks as branches of the Treasury, the reserve deposits should be added to complete the comparison. These deposits, at the end of April were $3,993,000,000 which added to the credit currency, $8,372,000,000 gives a total of $12,365,900,000 against which the gold holdings of $7,756,000,000 give a ratio of 62.7%". (1)

1. National City Bank Bulletin. June 1934. Page 95.

U. S. TREASURY CHART ON BASIS OF CURRENCY.

Year	Gold Coin and bullion	Silver	All credit currency	Ratio of Gold to all credit currency
1880 June 30	352	70	770	45.7
1890	686	380	1,044	66.7
1900	1,034	566	1,424	72.6
1910	1,636	568	2,431	67.3
1920	2,865	269	5,527	51.8
1930	4,535	540	4,825	94.0
1934 Jan.	4,036	540	6,406	63.0
1934 Apr.	7,756	540	6,327	122.6
#1934 Apr.	7,756	2,585	8,372	92.6 (1).

Calculated to show statistical effect of increasing silver up to 25% of total gold and silver reserve, other things being the same.

There are those who believe that the present ratio of gold is unnatural and as soon as economic conditions right themselves again, gold will be drained out of the United States, at which time silver will do us little good.

1. National City Bank Bulletin. June 1934. Page 94.

The silver currency has back of it silver which is worth about 1/3 of the value of the paper. In all probability it would be impossible to sell this silver at any price in case of emergency.

"With gold as the standard of value, it is always to be borne in mind that silver bullion is a Treasury Asset only in the sense that iron or cord wood might be, except that there would be a possibility of selling the latter while the sale of silver is never to be thought of. The only way the Treasury can ever realize anything on its silver holdings is to coin them into money". (1).

For practical purposes we may as well consider these silver certificates credit money. When we realize this it seems incredible that the United States should spend so much money.

As far as the effect on the present depression- the inflationary effect which some expected, would come from increased currency through the issue of silver

1. National City Bank Bulletin. Jan. 1934. Page 11.

certificates was negligible. In proportion to the total amount of currency, this addition was only a drop in the bucket. It is an accepted fact that no matter how much currency is put into circulation, the excess will find its way back into the banks.

In summarizing the results of our policy on United States, our good will and export trade with Mexico have been built up, while good will and trade with China have been broken down. The rise in the price of silver has been beneficial to the miners of silver, but they are not satisfied.

Our industries using silver as a metal have felt the effect of unstabilized raw material in production. The inflationary effect has been negligible, except to weaken our monetary structure.

CHINA

Early History

We will take up a study of China, the chief large country on the silver standard when the United States started its manipulations of the silver market. Let us consider here the early history of these people who for over 1,300 years have used silver as a medium of exchange, store of wealth, and measure of value.

The Chinese unit of silver currency has been the liang or Chinese ounce, 16 of which equal a "chin" or "catty", 1 1/3 pounds avoirdupois. The liang is not a coin but a unit of weight known to outsiders as the "tael". (1). For use, silver bullion was cast into ingots in the shape of a Chinese shoe. The money was distinguishable from the commodity only by the stamps of fineness. The weight of the ingots was determined by scales, and as the scales in the various communities differed, the ingots were not uniform; the approximate weight was fifty ounces.

In Southern China, silver dollars were accepted only on their intrinsic value. Shops accepting them would chop or stamp them as a guarantee, hence they were

1. China, A Commercial and Industrial Handbook. Page 154. Department of Commerce, Trade Promotion Series. Government Printing Office, Washington, D. C. 1936.

called "chopped dollars". The shops were careful in determining the weight and fineness of the dollars they stamped so they could stand behind them. For custom payments, the foreign powers stipulated by treaty a custom tael known as the haikwan. The haikwan equals 581-9 grains 1,000, the conversion rate 1/8 to 1/2 of 1%, being paid out of that received. (1).

Toward the end of the Eighteenth century the Spanish Carolus dollars came into China from the Phillipine Islands and became current in Sino-foreign transactions. In Canton, and later in other Southern Chinese ports this was also done. This entry of foreign currency continued and during the nineteenth century ten to fifteen different kinds were in circulation. The American dollar, because of its superior silver content, was hoarded and melted down. The Mexican dollar was the most generally used.

As early as 1792, the Emperor Ch'ien Lung ordered the minting of silver dollars in Tibet. These coins were short-lived. In the next hundred years there were

1. China, A Commercial and Industrial Handbook. Page 154.

various attempts at minting by the provinces. In 1892 the first government attempt was started, but relatively few dollars were coined. (1). The first serious attempt at a legal standard was made with the establishment of the Republican dollar or Yuan in 1914. During the world war the price of silver rose so high that silver dollars were melted down. (2).

In 1924 the Chinese Bankers Association at a conference, undertook to underwrite a loan of $3,000,000 for a new mint patterned after the one in Washington, with the salt surplus and the mint as collateral. The mint was then under construction, $2,500,000 already having been loaned by these same banks. The Minister of Finance promised this group full power to manage, if they accepted the loan. Civil war prohibited further action. (3).

The tael is gradually being replaced by the silver coin. In Canton the small silver coins and in Hongkong silver dollars are current. The government uses silver for all purposes and the banks of Peking carry their

1. Kann estimates 290 million dollars in 1891-1914 and 1,300 mil. Republican dollar from 1914-1930. Leong Silver. An Analysis of Fact.
2. The Yuan is 89% silver and 11% copper alloy or 370 grains pure silver.
3. China. A Commercial and Industrial Handbook. P. 164.

accounts in dollars. However, many foregin companies find it most convenient to carry two accounts, one in taels, and the other in dollars.

Period from 1929-1934.

There was in China in 1929 a large amount of silver. The Chinese were not great consumers of silver until after 1918, but from 1918 to 1931, 1,000,000,000 ounces of silver were imported which represented 30% of the world's production in that time. (1)

We mustn't overlook the fact that there was at the time of the depression a great deal of foreign capital already in China. The price of silver was low, consequently it didn't pay to export the metal or to buy exchange, so this capital stayed in the coastal cities. Another reason for the accumulation of funds in the seaport cities was the movement of funds from Bombay by Sassoon interests in order to avoid political unrest.

At this time the world was entering a depression. In the first years of this depression China was in a rather peculiar position. The price of silver had fallen very low, consequently it was hard for China to import goods from abroad as it took a great deal

1. Carothers, Neil, Silver, A Senate Racket. Page 8. North American Review, January 1932.

of silver to pay for them. Because of the large amount required to pay foreign debts, there was a natural withdrawal of silver from the interior. Under normal conditions Chinese exports would have offset in part the foreign debt, but the world was in a depression and the demand for Chinese goods had fallen off. The Chinese, however, had a competitive advantage which increased her exports to some extent. Silver prices had fallen with commodity prices and as a result there was no reduction in the price level in China.

Price Drops during 1930-1931. (1)

Silver	49.8%	Sugar	39.0%
Wheat	36.0%	Copper	50.0%
Cotton	46.8%	Coffee c	68.8%
Rubber	66.0%	Average of all products	51.1%

It might be well to stop and differentiate between the industry found in the coastal cities, and the trade that goes on in the interior. Naturally, the coastal cities, due to the foreign influence, are more developed than the inland areas. In the farming districts, many of the farmers rent their land and pay their rent in produce. They live on their crops and have little need for money except to provide their simple clothing. In prosperous times, capital flows inward, as an investment in

1. Lawrence, J. S. The Unimportance of Silver. World's Work. April 1931.

in inland inprovements as irrigation ditches, roads, railroads, etc. When money becomes scarce it is drawn back to the seaports. People lose confidence and do not re-invest when their money is liquidated.

Leavens, in discussing this return of silver from the interior, in 1929, says it reflected three things:-

1. Falling commodity prices and decrease export demand for Chinese Agricultural products.

2. Flight of capital for regions upset by civil war.

3. Increases use of bank notes, (Silver used as backing for bank notes--60% required). (1).

Sir Arthur Salter enlarges upon this and says: -

1. Conditions of interior trade.
2. Insecurity of interior made landlords, etc. prefer banks to interior investments.
3. Reduction of trade and fall in prices lesses demand.
4. Restriction of credit as borrowers less able provide credit.
5. Closing down and reduction of intermediate merchants.
6. New capital didn't seek interior due to lack of security.
7. High rate government pays for its financing now amounting to 10% which makes no attraction for money elsewhere.
8. Adverse balance of trade. (2).

Another situation must be considered. China's material exports have always been less than her material imports. But this difference has been cared for by an

1. Leavens. American Silver Policy in China.
2. Sir Arthur Salter. Page 48. China and Silver. The Economic Forum, Inc. New York, 1934.

invisible item in the trade made up of remittance from abroad and foreign capital seeking a field for investment. Of course, with the foreign world in a depression no one was making money to send home to China, and those who have money to invest,- a much smaller number than in good times, - are not investing it.

However, there was a lot of foreign capital in China in 1929, and the low price of silver made it unprofitable to take it out. Adding this amount to that which had come from internal China, we find an increasing amount accumulating in the Shanghai banks.

	Silver Stocks in Shanghai Banks-	Note Issue In Circulation.
Dec. 1931	375,000,000	250,000,000
1931	250,000,000	275,000,000
1932	356,000,000	287,000,000
1933	503,000,000	353,000,000

(1).

Some of this silver was used as backing for bank notes in circulation. There is some increase in the note issue--but not as great an increase as there might have been. If they had increased the note circulation as fast as the law would permit, they could have created

1. Leong. Factors affecting the price of silver. P. 35. Brookings Institute, Washington, D. C. Institute of Economic Publications, 1934.

422 million in notes from 1931 to 1933 instead of the seventy-eight million created. The strangeness to people of paper, is one of the fears held for China under the managed currency which she was forced to adopt. We shall consider this more in detail later.

The presence of this excess reserve brought signs of prosperity in many of the Coastal cities during 1931. In Shanghai there was quite a real estate boom. Many of the banks had excess reserves and invested them in real estate. When conditions became bad, the banks were unable to sell, and with a large amount of frozen assets which had lost value since purchase, they were forced to close their doors. The American papers carried several notices of these failure, for example:- "AMERICAN-ORIENTAL BANK AT SHANGHAI IN TROUBLE. Directors of the American-Oriental Banking Corporation, at a meeting today, decided to suspend payments and apply to the United States Court for appointment of trustees to conserve assets for the benefit of depositors".

It was reported that the bank's assets were substantially in excess of liabilities and that a shortage of cash was caused only by the continued acute financial situation in the Orient". (1).

1. The Detroit News. May 29, 1935.

"ANOTHER SHANGHAI BANK FORCED TO CLOSE DOORS. As a result of the acute financial situation in China, the Shanghai Tingsun Native Bank, of the largest style Chinese banks, closed its doors today.

The Tingsun bank is the third financial house to collapse during the last week, the others having been the American Oriental Bank and the Minghua Commercial Savings Bank. (Officials of the American Oriental Bank blamed their difficulties on the American Government's silver purchasing policy". (1).

Another stimulus to industry was the duty charges and low exchange rates which made it more profitable to produce products which had formerly been imported.

But to retrace, China's period of prosperity was brought to a sharp close when Great Britain, on Sept. 21, 1931, went on the gold standard. This caused the pound to depreciate and resulted in an appreciation of the silver currency. So China lost her advantage in foreign trade, and was in the same position as the rest of the world. Her money had appreciated which is the same relatively as a fall in the price level.

1. Detroit Free Press. May 24, 1935.

The United States saw that China was having trouble, so engineered the silver agreement at the London Economic Conference, and finally launched on a world wide purchase of silver to boost silver prices.

1934-REACTION TO RISE IN SILVER.

Not long after the Silver Purchase program started, reports came that China was losing silver in large quantities. By September, the Chinese government was greatly worried for a loss of silver means a loss of currency, as silver circulated. They sent a note to the United States requesting them to withdraw from the market enough to let the price of silver remain stable. They agreed to exchange silver for gold with the United States. The note very clearly summed up the Chinese situation. This note read in part as follows:- "Since 1931, the rising of silver value in terms of foreign currency has involved severe deflation and economic losses to China and has dislocated China's balance of payments, in part at least, by hampering exports. Recently the stimulation of silver prices abroad, to which exchange has not fully responded, has caused serious drain of silver, creating great alarm.

Silver exports of this year to date are over three times greater than any previous full year. Further material silver

price increase would cause very serious injury to China, possibly severe panics. Although influential American circles advocate higher silver prices, the Chinese Government, of course, makes no assumption concerning the American policy in this regard.

China is certain that the American Government desires to avoid any action that may aggravate present conditions and therefore would appreciate an assurance that the American Government would refrain from any action that might cause a continuation of the present silver drain from China, and, accordingly, would cooperate to prevent further rise and to maintain the stability of silver which the London agreement contemplates. Indeed, from China's viewpoint, the stabilized level should be somewhat lower than the present price.

The National Government feels obliged actively to seek means of avoiding further hardships of silver fluctuation. It considers that China should not alone maintain the silver standard and is considering the gradual introduction of a gold basis currency, which will necessitate the acquiring of gold.

Since the American Government desires an increased proportion of silver in its monetary reserve, the National Government desires also to ascertain in principle whether

The American Government is willing to exchange with the Chinese Government gold for silver." (1).

Mr. H. H. Kung, finance minister of the National Government, in a second note, tried to emphasize the situation and explained that China was not "protesting" President Roosevelt's policy, but only wanted an exchange of views.

The United States Government, through its Secretary of State, Cordell Hull, replied that it was impossible to stop purchases, but they would try to avoid disturbance to Chinese economy. He also said that it was impossible to exchange silver for gold because, "free markets in which gold and silver could be acquired by purchase are now open to all nations, and therefore, direct inter-governmental transactions have not been undertaken".

The Chinese Government saw that it was hopeless to try and stop the United States purchasing, - so they tried to control the situation by limiting dealing in foreign exchange to strictly commercial and necessary personal needs. Eventually the condition got so critical that there was nothing much for China to do but place an embargo on

1. National City Bank Bulletin. November 1934.

silver. The export tax on bullion or sycee silver was raised from $2\frac{1}{4}\%$ to 10%, in addition an equalization fee which would make up the difference between the price in London and the rate of exchange fixed by the Central Bank of China. This action placed China-- as far as international relations were concerned, - on a managed currency.

The Chinese had felt even before our policy of buying silver was adopted that a rise in the price of silver, artifically caused, and occuring very rapidly, would bring trouble to China. Mr. K. C. Li, Chinese engineer, in discussing the relation of silver to Chinese internal and external trade, to the Council on Foreign Relation of New York, on April 3, 1934, had said, "If the metallic silver is taken away from China, it would mean that she would have no medium of exchange. You gentlemen should understand what a catastrophe that would be.

Assume that only a part of it is taken away from China. It will mean the tightness of money and the tightness of money will mean deflation and depression, and a run on banks the same as you had in March, 1933. China cannot afford to lose much of her silver, just as you cannot afford to lose much of your gold. If you had to go off the gold standard because of heavy withdrawal of gold, would not China have to go off the silver standard if the withdrawal of silver is too heavy? If the United States has suffered from

falling internal prices due to an exaggerated value of the dollar, so would China suffer if the external value of her money was increased. If a lower gold dollar is essential to higher commodity price in America, would not a lower silver dollar be necessary if higher commodity prices are to be desired in China?

China does not believe that any lesiglation for higher gold prices of silver alone will do any good for silver, if not accompanied by higher gold prices in general and by the reduction of unscientific tariffs which prohibit China's exports." (1).

The silver embargo however, was not sufficient to prevent silver from leaving China. There was the embargo but it was impossible to prevent smuggling. If we look at the exports of silver from Manchuria and Japan, we realize the great deal which must have left China. (2). There was a reduction in the silver stocks in Shanghai which would indicate that silver was going somewhere.

1934	May	447,280,000	
	June	446,220,000	
	Aug.	381,840,000	
	July	426,420,000	
	Sept.	348,460,000	
	Oct.	320,360,000	
	Nov.	283,000,000	
	Dec.	267,000,000	(3).

1. National Bank Bulletin, June 1934.
2. Boston Transcript, Oct. 2, 1934.
3. National Bank Bulletin, January 1935.

Conditions grew steadily worse. The rise of silver price was hard on industry. New York Times gives the following reduction in industry during the months ending Dec. 15, 1934.

Weaving and spinning	25%	
Hatmaking	30%	
Silk filatures	80%	
Dyestuffs	40%	
Printing	45%	
Painting	40%	
Electrical Appliances	45%	
Ironworks and Glass	50%	
Rubber Goods	50%	(1).

The rise was also hard on the peasant of China, for they receive so little for their commodities. Those who owned their own land were worse off than those who rented, for in most cases, those who rented paid for their goods in produce, - while the land owners had to pay taxes which were not reduced.

China has lost her purchasing power because of her inability to export her commodities. It is all very well for the United States to say, - raise the price of silver and increase China's purchasing power, - but China's purchasing power is not measured in silver, - it is measured in export trade.

1. New York Times. Dec. 18, 1934.

This fluctuation in silver prices naturally had an effect on the foreign exchange rates with China. We have noted them in the foreign exchange section under the United States.

When we realize that when the exchange rates dropped in the United States, they rose in China, - we can see that China's hope of buying from abroad steadily declined. This difficulty gave impetus to national sentiment and stimulated measures to make the country more self-sufficient. At a meeting held in December, the Central Executive Committee of the Kuomintang, which is the nationalist party,"went on record in favor of higher import duties, and even adopted a resolution urging the Nationalist Government to establish an automobile factory as part of a domestic industrial expansion program. At the time, it is reported that public opinion is running high against the United States which is considered to be pursuing a course inimical to China". (1).

The climax of the Chinese situation had not yet been reached. During the spring of 1935, the price of silver continued to rise, with the natural rise in speculation resulting.

1. Sir Arthur Salter. China and Silver. Page 96. Brookings Institute, Washington, D. C. Institute of Economic Publications, 1934.

It was known that silver was leaving China in large quantities and no one knew exactly what to do about it. On May 12, the Minister of Finance, Dr. H. H. Kung, says, "Silver Purchase Act has caused severe drain on China's silver revenue and construction of nation's currency and credit", - he continued, saying that China was "forced to depend upon borrowings to meet current expenses". (1).

Toward the end of October 1935, the Chinese exchange began to fluctuate rather widely. On October 15, 1934, the exchange was thirty-four cents, - in May, 1935, it was forty-one cents, and the day before nationalization it was thirty-and one-half cents, a drop of 20% in two weeks.

To those who noticed this, - it wasn't too surprising when China announced, on November 4th, that she was legally leaving the silver standard for a managed paper currency.

The London times for November 4, 1935, gives the following summary of the provision of the act.

1. "A new paper currency shall take the place of the ancient silver dollar.

2. The existing bank note issue shall be withdrawn and replaced by one single note issue.

3. This note issue will be the monopoly of a modern Central Bank.

(1). Commercial and Financial Chronicle. May 18, 1935. Page 3307.

4. The Government owned Central Bank will be reconstructed and converted into a modern Central Bank, which will be charged with maintaining the stability of the currency.

5. The new paper currency will be inconvertible.

6. The formal monopoly of the note issue will come into force in two years.

7. The Budget is to be balanced within eighteen months.

8. All silver will be nationalized on much the same lines as gold has been nationalized in the United States." (1).

Dr. H. H. Kung, Chinese Minister of Finance, says, "The new monetary policy means neither suspension of banknote convertibility, nor abandonment of the silver standard for the currency. It is rather a suspension of the circulation of silver currency in the market. (2).

China's abandonment of silver caused much excitement, for people wondered whether she would tie up with Great Britain or Japan. Sir Frederick, as Representative of the British Government, had been in Japan trying to interest the Japanese to combine in a joint effort to stabilize Chinese currency. Japan refused, so he went across to China and talked with the Chinese Nanking Government. There were rumors that he promised a fifty-million dollar

1. The London Times. November 4, 1935.
2. The Boston Transcript. November 6, 1935.

British exchange stabilization loan, but in return he asked for a monopoly in reconstruction of China's railway system. China, however, acted quickly, and before Great Britain or Japan realized, the Chinese currency was tied to that of the British ports of China.

China is in a truly grave position. Her people have always used silver, -- they will have to be taught to use paper. Also, - there is the problem of collecting the silver that is now distributed through the entire country. Edward Kann, in Eastern Exchanges Technical service, - published in Vienna, writes, "The adoption of a so-called managed currency offers only great difficulties in a country where the population has for centuries been accustomed to the handling of hard money, but it is liable to bring about open rebellion. It is far easier to stop at the frontier a relative handful of smugglers in actual possession of the metal, than to impound the metallic possessions of 400,000,000 people. One reads without astonishment of the refusal of northern China bankers to part with the metal, of the Japanese's promise to protect those who refuse, and the Nanking government's bland reply that the metal would be considered

seized to those northern vaults". (1).

We realize more than ever the seriousness of the condition when we read a contemplation of managed currency in China by Mr. Roberts of the National City Bank, New York. "China in its present state of economic development is ill-suited to an inconvertible currency. The people are accustomed only to a limited extent to the use of paper money, and any attempt to introduce a non-metallic standard would provoke widespread and serious unrest, in the opinion of those familiar with Chinese conditions. Moreover, the country lacks the national unity essential to general acceptance of a uniform paper currency. Experimentation with inconvertible currency is always dangerous, and would be particularly so in China where political conditions are so unsettled." (2).

1. National City Bank Bulletin. September 1935
2. Albion Evening Recorder. November 10, 1935.

Mexico

General Comments.

Mexico is the world's chief producer of silver. From the time Hernan Cortes took over Mexico in the name of the King of Spain until today she has produced over 5 1/2 billion ounces or 1/3 of the world supply. The production figures from 1934-35 shows that she produced 41% of the output for the year. (1)

Silver Production 1934-1935.

Country	1934	1935
United States	26.4	38.4
Mexico	74.1	72.2
Canada	16.4	16.4
South America	16.0	25.0
All other countries	52.2	54.5

In 1931 the mines employed 36,000 men and the metallurgical plants 11,000. (1) Silver represents 20% of Mexicos exports. Consequently silver and the price of silver have a good deal to do in determining the economic structure of Mexico. It affects the personality of the people. They are easy going, for there is always the hope that they will find more silver and have plenty again. Silver has affected Mexico geographically, for towns have grown up around the mines. The third way, and perhaps the most interesting to us, is the way silver affects the economic structure of Mexico. When the demand and price of silver are high, there

1. Silver in Relation to Mexican Trade. John Glenn Page 1. Foreign Trade Council.
2. Handy and Harman, 20th Annual Review of the Silver Market, 1935 Pandick Press, Inc. New York City 1936.

is more demand for cotton, so silver stimulates the textile industry. Also there is more money in the treasury and that means more new roads and more constructive work in general. During the first six months of 1935, there was a surplus of over nineteen million pesos in the treasury. (1) John Glenn summarizes the advantages of silver to Mexico as follows: "First, a greater income to the worker. This could not be appreciated without a further explanation. When the price of silver increases, the miners extract the lower grade of ores as a logical and economic defense of their resources. It follows then, that the miners work longer and receive more wages. The second advantage, dependent on the first is that workers increase their consumption of goods in general and spread prosperity to many sections, which in turn increases purchases from abroad. Thirdly, and lastly, this contributes toward the life of the mining industry." (2)

Effects of a Rise in Silver Prices.

With this introduction we come to the time that the United States started its buying policy to raise the price of silver. Naturally a rise in the price stimulated produc-

1. Silver in Relation to Mexican Trade, John Glenn. Page 3. Foreign Trade Council.

2. Handy and Harman, 20th Annual Review of the Silver Market. 1935. Page 52. Pandick Press. New York City. 1936

tion in Mexico as it had done in the United States. On October 29, 1934, we find an interesting dispatch in the Boston Herald. The headlines read, "Mexico Selling Silver to the United States", with the subtitle, "Treasury is Buying Direct from Government, Morganthau Says".

This is unusual considering the fact that earlier in the month Secretary of State Hull told China we could not trade directly with governments. The article continues by saying that Mexico is the only country with which we have such deals. From the Mexican standpoint it is a good thing for it gives them dollar balances in the United States and an outlet for the newly mined silver which it has 'obliged itself to hold off the market under the international silver agreement negotiated at the London Economic Conference". (1) When we look at the export figures we can readily see this. Below is a chart taken from the Commercial and Financial Chronicle which gives us the exact picture of the effect of the price on exports and imports.

Mexican Trade and the Price of Silver.

Year	Silver Price	Value of Trade	Exports	Imports
1928	58.1	950.1	592.4	357.7
1929	52.9	973.0	590.8	382.2
1930	38.1	808.7	458.6	350.1
1931	28.7	605.3	388.7	216.5
1932	27.8	465.7	304.8	160.9
1933	34.7	609.3	364.9	244.4
1934	47.9	984.7	641.0	343.6
1935 (1/2)	63.6	523.6		

(2)

1. Boston Herald, October 29, 1934.
2. Commercial and Financial Chronicle. May 4,1935 P. 2959.

The pick-up in trade meant prosperity for the people. But what happened to the currency? The peso usually fluctuates between 3:30 to 3:45 to the dollar. After the first of January 1935, the peso reached 3:60. When the price of silver rose to 75 cents and above in April of 1935, the Mexican Government was in a predicament. Their currency was worth more melted into silver bullion than as a purchasing unit. What could they do? An ambassador was sent to Washington to confer with Secretary of Treasury, Morganthau. The Mexican Government had to close the banks for a day. On the 26th, President Carendas issued a decree directing the silver money in circulation to be exchanged for paper notes backed by the Reserve of the Bank of Mexico.

The proclamation for the paper currency carried the following provisions:

1. Issuance of one-peso bills by the Bank of Mexico in unlimited circulation with compulsory acceptance as legal tender.
2. Some issuance of 1,2,5,10, and 20 centay copper coins replacing silver pieces with the same compulsion.
3. All silver to be withdrawn from circulation to be added to the Bank of Mexico's reserves to guarantee the paper bills.
4. During the next 30 days silver coins will be legal tender only up to a 20 peso limit.

5. Bank of Mexico and Government offices will exchange new money for old at par.
6. All deposits, no matter if privately concealed must be exchanged for new money. (1)

The New York Times received the following dispatch on the situation. "All banks will be closed tomorrow in order to allow the Government a free hand and to avoid disastrous speculation. The Government will issue a new series of paper bills backed by reserves to be held by the bank of Mexico. The President explained that the action was unavoidable if national interests were to be protected from undesirable speculation. During the day the peso fluctuated between 3.30 and 3.45 to the dollar. Robert Lopez, right hand man to Marciso Bassols, the Minister of Finance, took a plane to Washington this afternoon with Thomas L ockett to discuss the American situation arising out of President Roosevelt's policy of advancing the price of silver. During the last two years in which the peso has been held at 3.60 to the American dollar, Mexico, like all mining and manufacturing countries must subsist mainly on exports which will become impractical if currency increases too much as compared with the dollar." (2)

1. Boston Herald, October 29, 1934.
2. Commercial and Financial Chronicle. Page 2960.

The conference seemed to be very satisfactory. Mr. Lopez said on leaving Washington, "My conversation with Mr. Morganthau came to a most satisfactory end, contrary to current comment. My mission to this country was entirely of a friendly nature. Our conversation covered other aspects of the silver situation. As a silver producing and using nation, Mexico cannot help but look favorably upon the re-valuation of the metal. For this reason she will be ready to cooperate toward the attainment of that end. The Mexicans feel it will be readily accepted, (paper currency), by the people and that no depreciation in the value will occur so long as the Mexican Treasury maintains a large metallic reserve". (1). And so, Mexico, enjoying a period of prosperity, goes on a paper standard.

When China abandoned silver in November, and the United States let the market drop twenty points, Mexico became anxious as to the future of the market. The last of December, Eduardo Saurez came to Washington to have a conference with Mr. Morganthau on the silver situation. The reason for the visit was not announced, though it was believed that the withdrawal of the United States from the market was the reason.

1. Commercial and Financial Chronical. Page 2960

It is understandable why Mexico should be so intensely interested in the silver policy of the United States. She is a producer, and although at the present she is enjoying a period of prosperity, if the United States withdrew entirely from the silver market--the market would crash. With China no longer buying silver and India dropping out, there is no demand except that of the United States. Industry will always require some silver but the proportion is very small. If a crash comes, Mexico would be severly hit, for silver is her chief export--. With silver as her chief export, and the United States as the sole support for the market--naturally our policy is of the gravest concern to Mexico.

India

First Uses of Silver

The people of India are in many ways like those of China in their love and desire for silver. It is a tradition with them, they have prized it and hoarded it as wealth for a long time. When we stop and review the early history of currency in India we find that gold was also used. One of the first currencies used in India was a coin weighing 1.75 grains and called the "rati". In 1542, 100 ratis appeared as the "rapyam". (1) This is traced back to the Vedic times. Another early coin used in Southern India was the gold bun or varaya stamped with the boar's emblem and it's subsidiary coin (1/10 of a varaya) the dirhem. (2) There were many systems of private coinage. In 1600 Queen Elizabeth refused to allow the East India Company to introduce the coins of the King of Spain, but required that pieces, "should be coined with her effigies on one side and the portcullis on the other, of the just weight and fineness of Spanish pieces of eight." (3)

The first English rupee in 1677 was known as "Rupee of Bombiam". It wasn't coined to any great extent until 1758 whe n British rule was established. Eight years later in 1766 the money of India was changed from copper and bullion to silver with the resulting with drawal of silver from Russia, Scandinavia, England, etc. and consequent bank failures in those countries.

Silver soon came into prominence. Probably partly for

1. Laughlin, History of Bimetalism in the United States. Page 310
2. Delmar, History of Bimetalism in the United States. Page 338

the same reason we found it in China, namely that silver being of less value could be coined in smaller denominations and as the majority of the people were poor, they preferred several silver pieces to a single gold coin.

In 1853 the East India Company declared, by Act XV11, the silver rupee to be the uniform coin for the whole of British India. (1) After the discovery of gold in Australia and California, gold poured into India. In 1868 gold became legal tender at the ratio of 15:1. (2) From 1873 to 1893, the price of silver fell causing a fall in the commodity purchasing power of silver.

Fall in Price and Commodity Purchasing Power of Silver.
1873-1893
(1873 equaling 100)

Year	Price	P.P.	Year	Price	P.P.
1873	100	100	1884	85	93
1874	98	92	1885	82	94
1875	96	103	1886	77	97
1876	89	100	1887	75	96
1877	92	77	1888	72	90
1878	89	72	1889	72	85
1879	86	79	1890	80	85
1880	88	91	1891	76	84
1881	87	101	1892	67	76
1882	87	102	1893	60	78
1883	85	101		(3)	(4)

In interpreting this Kemmerer says, "In India the value of the rupee as measured by its purchasing power of commodities varied less widely than did that of the pound sterling in England, this is even truer if one eliminates the heavy drop in

1. Rupee equals 180 grains 11/12 fine.
2. Laughlin, History of Bimetalism in the United States. P. 316
3. Price--Laughlin, History of Bimetalism in the United States. D. Appleton and Company,New York. Page 317.
4. Index of Purchasing Power--Atlinson, Indian Prices. Page 276. United States Bureau. Laboratory Bulletin. No. 173.

value of the rupee during the period of Indian famine of 1877-9." (1)

The failure of the Brussels Conference on Bimetallism in 1872 caused the Indian government to pass Act VIII on June 26, 1893 to amend the Indian Coinage Act of 1870 and the Indian Paper Currency Act of 1882, closing the mint to free coinage, but reserving the right to coin on their own.

Recent Years in India.

Despite this India was still a vast market for silver. The people had become used to the metal. They needed it for ornaments and jewelry. During the marriage season there was a great demand for silver. The inflow and outflow of silver moved with the harvest seasons. When crops were good large amounts of silver went inland to pay the farmers for their grain. When the harvest season was poor, much silver came out of hoarding to pay for necessary supplies. There is still another difference between China and India. The Chinese silver was hoarded as silver and could be very easily retreived in case of emergency. In India on the other hand, the people used the silver for ornaments and it meant melting down these ornaments. Consequently silver remained in India longer than it would in China.

During the world war, Great Britain had to borrow silver to keep India on the gold-exchange standard. However, by 1926 the tables had turned and India was disposing of her silver. The Royal Commission on Indian Currency and Finance recommended

1. Laughlin, History of Bimetallism in the United States. p.318

that the Indian Treasury sell rupees until the minimum of 250,000,000 rupees was reached. This policy was adopted. "In a large country like India the variation in volume of currency required by the public is considerable and, because paper money is not widely used, it is necessary to hold a fairly large amount of rupee coins in the reserve. But the currency commission found the amount then in the reserve to be unnecessarily large and recommended its reduction from about 850,000,000 rupees (292,187,500 fine ounces) the amount held on April 30, 1929 to 250,000,000 rupees through the melting and sale of coin over a 10-year period. This recommendation was adopted as a policy of the Indian Government. But the 22nd of September 1931, just after Great Britain's suspension of the gold standard, found the Indian Treasury with a stock of rupees not only reduced in accordance with the 10-year plan (although over 100,000,000 fine ounces had been sold) but actually increased from 850,000,000 rupees to over 1,532,400,000 rupees, or by 455,606,000 ounces. Only six months later the figure had declined to 1,106,100,000 rupees". (1)

There is another peculiarity of the Indian silver situation. The people of India to some extent preferred gold to silver. In times of abundance we see that proportionately more gold entered India than in poor times. However, in times of famine, the people parted with their gold first.

In the year that followed the adoption of the Silver Purchas-

1. Silver Market for 1932. United States Department of Commerce. Wáshington D. C. Page 45.

ing policy by the United States the silver imports of India had a tendency to decrease. In 1931 and 1932 the low price of silver had resulted in fairly large imports. The silver market in India has been practically destroyed. The Bombay silver bullion market, one of the four leading markets for silver in 1931 was forced to discontinue operation on August 20, 1935.

India has not been too greatly effected economically by the boost in silver prices. When the price of silver reached 81 cents, there was some apprehension over the possibility of the rupee being worth more as silver than as bullion. The rupee is valued at $1.07 ¼. (1) The price of silver came down again and the rupee was left unharmed. Consequently we can agree that the rise in the market price did not have any direct effect on India, but she is no longer one of the chief consumers. In the year from 1934 to 1935 her consumption dropped from 15 million ounces to 5 million or a drop of 66%. (2)

1. Handy and Harman, 20th Annual Review of the Silver Market. Pandick Press. New York 1936. Page 53.

2. Same as 1. Page 54.

Summary

"The Silver Purchase Act of 1934"--A year and a half has passed since this act was passed. Our Secretary of the Treasury has carried out its dictates and purchased silver in large quantities at artificially high prices to build up the silver market.

We have traced the results of this buying on the four main countries most directly affected by this silver policy and now we come to the point of evaluating the facts.

First let us see what others think of the policy. Mr. Herbert Hoover, in his address before the Ohio Society in New York on Novermber 16, 1935, denounced the whole program as "folly" and charged that the Administration "had deliberately bid up the price of foreign silver 50 per cent", and then had "proceeded to buy vast quantities of that commodity, for which we have no use, at enormous profits to foreigners". (1)

Dr. Herman F. Arendt says, "The President's monetary policy is in danger of being attacked by the gold conservatives, bankers and business men of the northeastern part of the country, on the one hand, and the Thomas paper money inflationists on the other. This silver move, on the part of the President, may best be understood as a bid for the support of the not inconsiderable group of senators from the silver states in behalf of the President's policies. The measure is

1. Christian Science Monitor, December 11, 1935.

not bimetallic, nor does it remonetize silver. It merely arranges for the purchase of the output of mines in the United States at a price of $.645 an ounce, which is substantially above the world market. It is merely a project designed to assist the silver mining industry just as the cotton growers and other agricultural producers were assisted by the Agricultural Adjustment Act".(1)

One of the chief reasons for the policy was to help foreign trade, yet we see that the Foreign Trade Council goes on record as favoring a repeal of the Silver Purchasing Act. (2) In this respect Senator Key Pittman, leader of the silverites says, "The myth (of the hurt to China and Chinese trade) is gone. It is dispelled. The predictions were untrue. The statistics with regard to the rise of silver throughout the world, the buying of silver by governments, the buying of silver everywhere, show that silver is a precious metal, that silver is scarce, and that silver must be had for monetary purposes throughout the world. The statement that we are ruining China is perfectly absured." (3) Could he be wrong?

The help it was supposed to bring to trade through raising the price of the pound sterling was never received. The price of silver did not go high enough to cause a

1. Boston Transcript, December 21, 1933
2. Congressional Record for 1935. Page 5608.
3. Final Declaration of the National Foreign Trade Council
   Houston, Texas. Page 7.

melting down of the rupee, so the only damage to India was the drawing out of hoarded silver for sale at higher prices. However, from the standpoint of the silver market, India is no longer an important customer.

In regard to Japan, it tended to improve her relations with China because the later, incensed by the damage done by our program and by our disregard for her protest "recoiled" from the United States toward Great Britain and Japan. It helped Japan for "that country facilitated the smuggling of silver out of China and later pursued a policy of draining silver out of the northern areas to finance her operations there. The silver was shipped to London for sales to the United States". (1)

It is impossible to determine the extent of the damage done to China by the policy. Conditions were far from perfect in China before we started our buying policy. They have grown steadily worse since 1934 until at present, China with a very loosely organized central government is trying to control a managed currency. A leading Chinese financial journal in November 1935 says, "Business has rarely been worse than in recent months". (2)

1. Bell, Silver Fiasco. Current History. January 1936 P. 473
2. Address by W. T. Moran, Vice President of the National City Bank of New York. Delivered at the National Foreign Trade Convention. Houston Texas.

Even those who believe in the polciy begin to see the fallacy in unnaturally high prices for silver in the world market. Brownell of the American Smelting and Refining Company, although he believes firmly that silver should be bought from the local mines, says that 65 cents an ounce is too high for foreign silver market prices, that 60 cents would be better. (1)

Mexico was helped by our purchasing policy. She was able to export silver at a good price which resulted in a wave of prosperity. Nevertheless, if the silver policy has ruined the future market for silver, Mexico will soon experience a depression in which conditions will be worse than they were in 1931 and 1932.

It is impossible to know what the future will bring. If as many believe, silver comes back as a monetary base, there will be small losses to the United States from its policy. However, if silver goes like copper did in the early history of money and does not return, the United States and Mexico will suffer severely.

The United States has not benefited to any great extent. It may have brought relief to the silver miners, but it has been very hard on manufactures using silver as a raw material. Alex Vincent, Secretary of the Silversmiths of America, says, "No business, whatever it is could view an

1. Business Week, December 14, 1935. Foreign Panorama. Page 40.

advance like that in the price of its raw material without serious concern". (1) We have already pointed out the fact that it did little for our foreign trade.

The President's hope that the policy would re-establish silver as an internationally recognized monetary base failed completely. This is plainly seen in the case of both China and Mexico, countries who were forced to abandon silver.

Regardless of the temporary benefits of the policy, no good can come from pegging the price of a commodity. The late Senator Dwight W. Morrow once said, "that there is no group of men wise enough, let alone disinterested enough, to fix the price of any commodity. Ten years ago the rubber industry had its Stevenson plan; the copper industry, for a year, ending in the Spring of 1930, tested the pegging theory; Brazil has suffered financial and economic ills in an effort to peg the price of coffee; in cotton, the Hoover administration once entertained the idea of a 16 cent minimum (the price dropped to about 5 cents a pount in 1932), and now that the present idea under the AAA is for 12 cents, or better, it cannot be said that pegging in this industry has been successful; effort to peg wheat prices did not prevent on one fine December day in 1932 the lowest price in generations (Liverpool then report-

1. Keystone. November 1935. Page 56.

ed the lowest levels since the days of Queen Elizabeth); now witness the debacle in the silver market, following the Treasury's attempt at pegging, pursuant to the Silver Purchase Act. The foregoing are but a few of the well-known attempts (and failures) at price-pegging on an international scale. But what may never be known is the cost, direct and indirect, of these uneconomic adventures". (1)

1. New York Times, December 12, 1935.

Summary of the Effects of the

Silver Purchase Act of 1934.

At the present time the act has

1. Upset the world market for silver, and failed to establish silver as an international basis for money.
2. Created a monetary crisis in China upsetting the internal and external trade, and ending with China'a having to nationalize silver.
3. Forced Mexico to adopt a paper standard, but brought a period of prosperity as her exports of silver at high prices increased.
4. Had a damaging effect on the United States foreign trade with the Far East, but increased that with Mexico. However, the net result was in all probability unfavorable.
5. Upset the silver manufacturing industry with a constant fluctuation in the price of raw material.
6. Helped the silver mining interest in the United States.

APPENDIX

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Boston Transcript	October 2, 1934
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Christian Science Monitor	December 16, 1935
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Wholesale Silver Nitrate Prices.
Per Ounce in 16 Ounce Bottles.

	1932	1933	1934	1935
January	24½	19 7/8	31 5/8	38 3/8
February	23¼	20¼	31 5/8	38¾
March	23¼	20½	33 1/8	41
April	22¼	23 7/8	33 7/8	39 3/8
May	22 3/8	25¼	32 7/8	53 ¾
June	22	26	33	49 1/8
July	22	28½	33 5/8	46 5/8
August	21¾	26¼	35½	44 7/8
September	21 7/8	29 7/8	35 ¼	44 5/8
October	21 1/8	28 5/8	38 1/8	44 5/8
November	20¾	31¾	38	
December	20	31 7/8	38¼	42

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20th Annual Review of the Silver Market.

New York Official

Silver Prices.

January	54.418¢
February	54.602¢
March	59.048¢
April	67.788¢
May	74.356¢
June	71.940¢
July	68.216¢
August	66.366¢
September	65.375¢
October	65.375¢
November	65.375¢
December	58.420¢ (1)

(1) Handy and Harman. Page 54. Pandick Press Inc. New York. 1936

Public-No. 438-73D Congress
H. R. 9745

AN ACT

To authorize the Secretary of the Treasury to purchase silver, issue silver certificates, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,"That the short title of this Act shall be the "Silver Purchase Act of 1934."

Sec. 2. It is hereby declared to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one fourth of the monetary value of such stocks in silver.

Sec. 3. Whenever and so long as the proportion of silver in the stocks of gold and silver of the United States is less than one-fourth of the monetary value of such stocks, the Secretary of the Treasury is authorized and directed to purchase silver, at home or abroad, for present or future delivery with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest: Provided, That no purchase of silver shall be made hereunder at a price in excess of the monetary value thereof: And provided further, That no purchases of silver situated in the continental United States on May 1, 1934, shall be made hereunder at a price in excess of 50 cents a fine ounce.

Sec. 4. Whenever and so long as the market price of silver exceeds its monetary value or the monetary value of the stocks of silver is greater than 25 per centum of the monetary value of the stocks of gold and silver, the Secretary of the Treasury may, with the approval of the President and subject to the provisions of section 5, sell any silver acquired under the authority of this Act, at home or abroad, for present or future delivery at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest.

Sec. 5. The Secretary of the Treasury is authorized and directed to issue silver certificates in such denominations as he may from time to time prescribe in a face amount not less than the cost of all silver purchased under the Authority of section 3, and such certificates shall be placed in actual circulation. There shall be maintained in the Treasury as

security for all silver certificates heretofore or hereafter issued and at the time outstanding an amount of silver in bullion and standard silver dollars of a monetary value equal to the face amount of such silver certificates. All silver certificates heretofore or hereafter issued shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, and shall be redeemable on demand at the Treasury of the United States in standard silver dollars; and the Secretary of the Treasury is authorized to coin standard silver dollars for such redemption.

Sec. 6. Whenever in his judgment such action is necessary to effectuate the policy of this Act, the Secretary of the Treasury is authorized, with the approval of the President, to investigate, regulate, or prohibit, by means of licenses or otherwise, the acquisition, importation, exportation, or transportation of silver and of contracts and other arrangements made with respect thereto; and to require the filing of reports deemed by him reasonably necessary in connection therewith. Whoever willfully violates the provisions of any license, order, rule, or regulation issued pursuant to the authorization contained in this section shall, upon conviction, be fines not more than $10,000 or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

Sec. 7. Whenever in the judgment of the President such action is necessary to effectuate the policy of this Act, he may by Executive order require the delivery to the United States mints of any or all silver by whomever owned or possessed. The silver so delivered shall be coined into standard silver dollars or otherwise added to the monetary stocks of the United States as the President may determine; and there shall be returned therefor in standard silver dollars, or any other coin or currency of the United States, the monetary value of the silver so delivered less such deductions for seigniorage, brassage, coinage, and other mint charges as the Secretary of the Treasury with the approval of the President shall have determined: Provided. That in no case shall the value of the amount returned therefor be less than the fair value at the time of such order of the silver required to be delivered as such value is determined by the market price over a reasonable period terminating at the time of such order. The Secretary of the Treasury shall pay all necessary costs of the transportation of such silver and standard silver dollars, coin, or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any silver withheld in violation of any Executive order issued under the section of or any regulations issued pursuant thereto shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition, any person failing to comply with the provisions of any such Executive order or regulation shall be subject to a

penalty equal to twice the monetary value of the silver in respect of which such failure occurred.

Sec. 8. Schedule A of title VIII of the Revenue Act of 1926, as amended (relating to stamp taxes), is amended by adding at the end thereof a new subdivision to read as follows: "10. Silver, and so forth, sales and Transfers.- On all transfers of any interest in silver bullion, if the price for which such interest is or is to be transferred exceeds the total of the cost thereof and allowed expenses, 50 per centum of the amount of such excess. On every such transfer there shall be made and delivered by the transferor to the transferee a memorandum to which there shall be affixed lawful stamps in value equal to the tax thereon. Every such memorandum shall show the date thereof, the names and addresses of the transferor and transferee, the interest in silver bullion to which it refers, the price for which such interest is or is to be transferred and the cost thereof and the allowed expenses. Any person liable for payment of tax under this subdivision (or anyone who acts in the matter as agent or broker for any such person) who is a party to any such transfer, or who in pursuance of any such transfer delivers any silver bullion or interest therein, without a memorandum stating truly and completely the information herein required, or who delivers any such memorandum without having the proper stamps affixed hereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor and upon conviction thereof shall pay a fine of not exceeding $1,000 or be imprisoned not more than six months, or both. Stamps affixed under this subdivision shall be canceled (in lieu of the manner provided in section 804) by such officers and in such manner as regulations under this subdivision shall prescribe. Such officers shall cancel such stamps only if it appears that the proper tax is being paid, and when stamps with respect to any transfer are so canceled, the transferor and not the transferee shall be liable for any additional tax found due or penalty with respect to such transfer. The Commissioner shall abate or refund, in accordance with regulations issued hereunder, such portion of any tax hereunder as he finds to be attributable to profits (1) realized in the course of the transferor's regular business of furnishing silver bullion for industrial, professional or artistic use and (a) not resulting from a change in the market price of silver bullion, or (b) offset by contemporaneous losses incurred in transactions in interests in silver bullion determined, in accordance with such regulations, to have been specifically related hedging transactions; or (2) offset by contemporaneous losses attributable to changes in the market price of silver bullion and incurred in transactions in silver foreign exchange determined, in accordance with such regulations to have been hedged specifically by the interest in silver bullion transferred. The provisions of this subdivision shall extend to all transfers in the United States of any interest in silver bullion, and to all such transfers outside the United States if either party thereto is a resident of the United States or is a citizen of the United States who has been a resident thereof within three months before the date of the transfer or if such

silver bullion or interest therein is situated in the United States; and shall extend to transfers to the United States Government (the tax in such cases to be payable by the transferor), but shall not extend to transfers of silver bullion by deposit or delivery at a United States mint under proclamation by the President or in compliance with any Executive order issued pursuant to section 7 of the Silver Purchase Act of 1934. The tax under this subdivision on transfers enumerated in subdivision 4 shall be in addition to the tax under such subdivision. This subdivision shall apply (1) with respect to all transfers of any interest in silver bullion after the enactment of the Silver Purchase Act of 1934 and (2) with respect to all transfers of any interest in silver bullion in May 15, 1934, or after, and prior to the enactment of the Silver Purchase Act of 1934, except that in such cases it shall be paid by the transferor in such manner and at such time as the Commissioner, with the approval of the Secretary of the Treasury, may by regulations prescribe, and the requirements of a memorandum of such transfer shall not apply.
"As used in this subdivision-
"The term "cost" means the cost of the interest in silver bullion to the transferor, except that (a) in case of silver bullion produced from materials containing silver which has not previously entered into industrial, commercial, or monetary use, the cost to a transferor who is the producer shall be deemed to be the market price at the time of production determined in accordance with regulations issued hereunder: (b) in the case of an interest in silver bullion acquired by the transferor otherwise than for valuable consideration, the cost shall be deemed to be the cost thereof to the last previous transferor by whom it was required for a valuable consideration; and (c) in the case of any interest in silver bullion acquired by the transferor (after April 15, 1934) in a wash sale, the cost shall be deemed to be the cost to him of the interest transferred by him in such wash sale, but with proper adjustment, in accordance with regulations under this subdivision, when such interests are in silver bullion for delivery at different times.

"The term "Transfer" means a sale, agreement of sale, agreement to sell memorandum of sale or delivery of, or transfer, whether made by assignment in blank or by any delivery, or by any paper or agreement or memorandum or any other evidence of transfer or sale; or means to make a transfer as so defined.

"The term "interest in silver bullion" means any title or claim to, or interest in, any silver bullion or contract therefor.

"The term "allowed expenses" means usual and necessary expenses actually incurred in holding, processing, or transporting the interest in silver bullion as to which an interest is transferred (including storage, insurance, and transportation charges but not including interest, taxes, or charges in the nature of overhead).

"The term "memorandum" means a bill, memorandum, agreement, or other evidence of a transfer.

"The term "wash sale" means a transaction involving the transfer of an interest in silver bullion and, within thirty days before or after such transfer, the acquisition by the same person of an interest in silver bullion. Only so much of the interest so acquired as does not exceed the interest so transferred, and only so much of the interest so transferred as does not exceed the interest so acquired, shall be deemed to be included in the wash sale.

"The term "silver bullion" means silver which has been melted, smelted or refined as is in such state or condition that its value depends primarily upon the silver content and not upon its form."

Sec 9. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary of the Treasury may deem necessary or proper to carry out the purposes of this Act, or of any order issued hereunder.

Sec. 10. As used in this Act-
The term "person" means an individual, partnership, association or corporation:

The term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska;

The term "monetary value" means a value calculated on the basis of $1 for an amount of silver or gold equal to the amount at the time contained in the standard silver dollar and the gold dollar, respectively;

The term "stocks of silver" means the total amount of silver at the time owned by the United States (whether or not held as security for outstanding currency of the United States) and of silver contained in coins of the United States at the time outstanding;

The term "stocks of gold" means the total amount of gold at the time owned by the United States, whether or not held as a reserve or as security for any outstanding currency of the United States.

Sec. 11. There is authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $500,000, which shall be available for expenditure under the direction of the President and in his discretion, for any purpose in connection with the carrying out of this Act; and there are hereby authorized to be appropriated annually such additional sums as may be necessary for such purposes.

Sec. 12. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Sec. 13. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby appealed, but the Authority conferred in this Act upon the President and the Secretary of the Treasury is declared to be supplemental to the authority heretofore conferred.

Approved, June 19, 1934, 9 P.M.