

GOLD PURCHASES

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South Africa and Rhodesia

In the month before the Munich Pact (29th September 1938) the Bank, as a precaution, began to set aside gold in Pretoria with the South African Reserve Bank, with a view to accumulating some £50-60 million there. In September they also bought gold<sup>in London</sup> from the South African Reserve Bank, ~~however~~ war risks made it difficult for the Dominion to cover their sterling requirements by the usual gold shipments.

By the end of March 1939 about £30 million gold had been acquired in South Africa and the Bank decided to stop at £35 million.

The arrangement under which this gold was purchased was payment in sterling of the London price less cost of packing, freight and insurance other than that covering war risks. Later it was agreed that 6d. per cent. should be charged for the last-named item. The Bank of England, however, paid charges from the Rand Refinery to Pretoria, and as the gold was shipped they were to cover all expenses from Pretoria onwards.

On 9th September 1939 H.M. Treasury gave the Bank of England a general authority to buy for the Exchange Equalisation Account the current gold output of South Africa, Southern Rhodesia and West Africa.

About two months after the outbreak of war the Reserve Bank, again finding it difficult to ship gold to London, asked for a resumption of purchases set aside in South Africa and the Bank of England agreed. On this occasion the Reserve Bank was to bear expenses from the Germiston Refinery to the Cape and the freight thence to London. The question of insurance was reserved for further consideration. Some of the gold so set aside was replaced in London by purchases made by the Bank of England for the Reserve Bank. The set-aside gold in South Africa was to be held, packed ready for shipment, at the Reserve Bank branches in Cape Town or Durban. Further setting aside of gold to provide South Africa with sterling occurred in March 1940.

Meanwhile

Meanwhile Southern Rhodesian gold was still reaching London - via the Cape - through the Standard Bank and Barclays (D.C. & O.) as agents for the Southern Rhodesian Government. In January 1940 the Minister of Justice of that Government, who happened to be in London, raised unofficially the question of the price received. It was alleged that a better price could be obtained if the gold were exported direct from the Cape to the U.S.A. This was theoretically true; but such shipment was in practice impossible.

The result of the Rhodesian enquiry was to hasten a review of the whole question of Empire gold. At the outbreak of war the London price had been fixed at 168<sup>s</sup>/- per fine ounce, and the intention was that it should remain stable for a reasonable period. Quite soon, however, there was a reduction in war risk premiums which materially affected the dollar parity price.

It remained undesirable, however, to change the London price; the future was not predictable and shipping difficulties might increase again, as in fact they did from time to time. There was also the prospect that losses would be incurred and that these would be for the account of H.M. Treasury.

On 12th March, at the suggestion of the Bank of England, approved by H.M. Treasury, a better offer was made to South Africa. The Bank telegraphed saying that insurance had been "a variable and unassessable contingent liability", not satisfactory to the Reserve Bank or the Bank of England. The new agreement proposed payment of "approximately the full price on current parity calculations", which would be extended to other parts of the Empire, beginning with Rhodesia.

The Bank of England would be responsible for the movement of all gold delivered to them at the port of shipment and bear all relative risks and charges for the duration of the war. The price would be 168<sup>s</sup>/- per fine ounce for fine gold bars packed ready for shipment and held at Cape Town or Durban. There would be no change in the price unless the U.S.A. altered their gold price or the official sterling-dollar rate were changed. The offer was made for all gold the South Africans were willing to sell during the war. This

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 a much more favourable arrangement for the South Africans than the agreement made in the war of 1914-18, under which the producers had to pay charges up to 25<sup>s</sup>/- an ounce.

The Reserve Bank agreed subject to one or two modifications. The South African Government was to be able to make such payments in non-sterling exchange as circumstances demanded and the Reserve Bank was to be allowed to sell reasonable amounts of gold to third parties in the Union if these were considered to be entitled to an exchange risk cover in gold.

The agreement came into force on the 27th March 1940. A comment in the Financial Times stated that the fact that H.M. Treasury was paying insurance (over 3<sup>s</sup>/- an ounce at the time) meant that the South African Government would receive a further £2 million per annum. The mines would themselves get about another 2<sup>s</sup>/- an ounce.\*

The offer to Rhodesia for the entire output of their gold was made on 24th April 1940. As in the case of South Africa, the London official price was to be paid on delivery for fine bars boxed at the Reserve Bank's branches at the Cape or Durban. The gold was to be refined at Germiston and payment would be made on cable advice of the outturn by the Reserve Bank. All ~~the~~ costs to the seaboard were to be borne by the sellers, and the Reserve Bank also made a charge of 1/8<sup>s</sup>‰ for handling.

What now follows concerns only a small amount of gold, but seems worth recording as an example of how simple instructions can go wrong.

The agreement was intended to cover Northern as well as Southern Rhodesian gold, but in May 1941 the Reserve Bank informed the Bank of England that the Northern Rhodesian gold (a quite small output) was not coming to them but was still being sold through the commercial banks. As such gold might in that case reach the South African Reserve Bank and not be re-sold by them to the British Control, steps were taken to ensure that the agreement was observed.

After

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\*From 1st January 1940 the South African Government paid the Rand Mines 168<sup>s</sup>/- less realisation charges, but imposed a new tax of 9% on profits.

After the Bank had informed the Treasury and the Colonial Office (20 May) the latter telegraphed to the Northern Rhodesian Government asking them to arrange for the gold to be sold to the Bank of England in the same way as the Southern Rhodesian gold. On 6th June the Bank wrote to Barclays (D.C.& O.) and the Standard Bank in London with the request that they should advise their African branches in the same sense. The banks complied. Early in September a first consignment (£2,000) was received at the S.A.R.B., Durban, for Bank of England account.

Subsequently it transpired ~~that the Northern Rhodesian branches of the banks had not received the instructions issued on 24th April 1940; also~~ that gold handled by the Standard Bank in Northern Rhodesia was bought by their Bulawayo Branch and treated in the same way as gold produced in Southern Rhodesia. This, however, was regarded as being in accordance with the original scheme.

(on 11<sup>th</sup> May 1944)

Answering an enquiry from the Treasury (Waley) about the price paid to the South Africans, Mr. Cobbold said:

"In reply to your letter of the 5th May, the position about the price of gold in South Africa is as follows. The net outturn of gold in New York at the rate of 4.03½ (our buying rate for dollars) is 173/-. We buy gold in any part of the sterling area at 168/- per ounce and undertake all the risks and costs of shipping. It is impossible to give an average cost of shipment since 1939 but at the moment the 'all in' cost of shipping and insuring gold from Pretoria to London is 4.56% and from London to New York 1.86%. This cost is, I believe, the lowest since 1940. Thus, it costs 10/9d. per ounce to ship gold, insured, from South Africa to New York by the only feasible route (direct regular shipment is practically out of the question), so that in theory gold purchased in South Africa for 168/- actually costs 168/- plus 10/9d. = 178/9d. A case can therefore be made to show that H.M.G. is subsidising the South African gold mines to the extent of 5/9d. per ounce in respect of gold bought by H.M.G.

It may be argued that H.M.G. do not insure. This is true in so far as we do not insure in the insurance market. But the margin we obtain between buying price and a gross outturn represents a notional insurance fund upon which (although we have been lucky in general) we have already drawn three times as we have lost shipments by enemy action, marine risk and explosion. Moreover, we do not take into account the fact that much of the gold purchased in this way is immobilised owing to shipping shortage and other restraining influences. If the gold mines wanted to obtain the best market according to moving conditions they would from time to time have to put up with the inconvenience of not being able to sell their production at all for long periods except to, and on terms determined by, their own Government. There has, for example, been

no reasonable possibility of moving gold from South Africa to any destination except in small quantities since September 1943.

When we decide to change our basic gold arrangements and adapt them to peace-time conditions, we should propose, if the dollar/sterling rate remains at 4.03 1/2, a middle gold price of 173/-, or if the dollar/sterling rate were amended to 4.00 a middle gold price of 175/-.

But whatever buying price may be adopted, it would be the Bank of England's buying price delivery London. Thus what gold producers can expect is a price based either on the outturn of gold delivered in London or gold delivered in New York, whichever is the higher. Peace-time costs varied between 3/8% - 5/8% and adjusting this basis to higher costs South Africa might expect after the war to get about 171/6 - 172/- with London middle price of 173/- or 173/6 - 174/- with London middle price of 175/-. It might well suit us then to make a firm contract for delivery South Africa at these prices or even a touch more favourable to the producers, to make sure of getting the gold. But while the availability and risks of shipping remain at their present level there seems no justification for paying more than 168/- per ounce delivery South Africa: at what stage the shipping position will justify reconsideration is anybody's guess.

....."

At the end of September 1944 the Reserve Bank telegraphed to enquire whether any adjustment in the gold price was being considered. They were being asked why there should be no improvement in the price in view of the reduction in insurance charges. The Bank and Treasury had themselves been pondering this matter and on the 5th October the Governor replied -

Secret and Personal

Your No.407 -

1. As you are aware the price we pay for gold of 168/- per fine ounce delivery South Africa is based on the relation between the 4.03 dollar rate and the American buying price for gold less a deduction which has necessarily been approximate to cover shipping costs and all insurance risks. We have been prepared to buy any gold produced in Africa under this arrangement during the whole course of the war irrespective of war risk insurance fluctuations and to accept full responsibility for eventual shipment to London.
2. In so far as South African gold purchased by us is regarded as providing the means to acquire foreign exchange we feel that over the period the price of 168/- per fine ounce has been very fair to South Africa. As you are aware for long periods during the war the only reasonably safe route with constant shipping facilities from South Africa to New York has been via London and to assess the cost of laying down gold in New York the substantial shipping and insurance charges obtaining during the war must be added to the price we pay loco South Africa. It is impossible to give an average cost of shipment since 1939 but from our latest information we believe that even now these costs cannot total less than 4%.

Nevertheless

3. Nevertheless and in spite of continuing shipping difficulties to which we can as yet see no early end we have been reconsidering our gold buying policy not only having regard to war developments but also to likely post-war conditions. In the light of this reconsideration we feel that some modification will be required in the near future.
4. There seems little likelihood of any early change in the dollar/sterling rate necessitating a consequential change in the basic sterling parity price for gold and we are considering therefore only a modification of our gold buying price to bring it more into line with probable post-war conditions.
5. It is our general intention subject to Treasury approval to fix the new London gold price in close relation to the middle dollar/sterling rate and the U.S.\$35 price of gold taking into account post-war shipping and insurance charges so far as we can estimate them rather than the level of these charges at the moment.
6. Although we have not yet fully discussed this matter with the Treasury we are anxious to finalise the position on this basis before the end of the war in Europe but there are a number of political and other problems to be overcome first.
7. As soon as I am in a position to do so I will inform you of the arrangements we hope to make. Until that time comes however I shall be glad if you will treat this cable in the utmost confidence.

1945

On 8th June/the Deputy Governor sent the following cable\* to the Reserve Bank:

No.A.70

Most Secret

1. You are no doubt already aware that H.M. Government have decided to announce the new buying price for gold on Saturday, 9th June at midday. The new price of 172/3d\*\* will take effect in the United Kingdom as from that date and the official buying price for gold coins will in consequence be -
 

	s	d
Sovereigns	40	3
U.S. Dollars	8/3 per dollar	
2. The announcement will also state that as regards gold produced in the Sterling Area and offered to us at local centres, the new price will have retrospective effect as from 1st January 1945 and will remain operative until further notice, all other terms and conditions remaining unchanged.
3. Empire Central Banks and the Federal Reserve Bank of New York have been asked to emphasise, in any publicity which may be given to this subject, that this change in price is simply a technical adjustment occasioned by the end of hostilities in Europe and designed to bring the official price more into line with shipping parity in peace conditions and that any suggestion of a change in policy either about exchange rates or about attitude towards gold in general would be entirely unfounded.

\* Other Empire central banks and the Federal Reserve Bank of New York received similar information.

\*\* In Committee of Treasury on 13<sup>th</sup> June the Deputy Governor, referring to the recent increase, said that the Bank's new buying price "represented the fair commercial out-turn for gold in present conditions".

West and East Africa

<u>Output</u> in 1938:	Gold Coast	about	675,000	fine oz.
	Nigeria		25,000	" "
	Sierra Leone		30,000	" "
	Tanganyika	}	170,000	" "
	Kenya			
	Uganda			

Shortly after the outbreak of war West and East Africa thought it would be dangerous to continue to ship to London as hitherto, and suggested that their gold should be sent to South Africa. The Bank, however, thought this would only add to the difficulties of shipping from South Africa. They suggested that the gold should be stored locally, preferably inland; but as this did not seem practicable it was agreed to continue the existing practice.

At the beginning of the war the Colonial Office had told the Empire Governments with which they were concerned to do their best to assist gold production. The higher price was itself some stimulus as most of these Governments took only half of the difference between the pre-war and war price as an extra royalty. There were no further developments until April 1940 when the Bank advised the Treasury, on an enquiry made by the Board of Trade, that all mines in production in West Africa should be put on a priority list for their steel requirements.

After the new arrangement with South Africa and Rhodesia the Bank proposed to extend the scheme to West and East Africa, and this was arranged in the middle of June 1940, for West Africa through Barclays (D.C. & O.) and the Bank of British West Africa and for East Africa through the Standard Bank and Barclays. After Italy entered the war it was no longer desirable to send gold direct to London from West Africa. There was a lack of air transport and insurance was heavy. ~~However~~ As regards Sierra Leone and Nigeria, the amounts seemed too small for an alteration to be worth while, and ~~in this case~~ shipment to South Africa would have meant a delay in payment which would have penalised the many small producers. Gold Coast gold, however, (with the exception later of some slag), now began to be shipped by sea to the Cape, thence by rail to Germiston for refining, and back to the Cape or Durban. The producers were to pay freight from

~~from~~  
 West Africa to the Cape, melting, refining, assay and boxing charges; all other freight and all insurance ~~was~~<sup>were</sup> to be chargeable to the Bank of England. Payment was made in London at 163/- per fine ounce less charges and after refining. More often, however, advances <sup>of</sup> 90% on gold assayed at over 800 (increased to 95% in September 1942) and 80% on the remainder, were made, the money being paid over on cabled advices of estimated gold content from the Gold Coast Banks. (These advices came through the Colonial Office and on some occasions failed to reach the Bank for a long time, which kept the Banks here out of their money. The reason for this delay was never fully cleared up.)

Early in 1941, there being no ships available, the Treasury agreed that advances might be made as soon as gold was deposited with the local banks. The banks and companies, however, seem not to have fully realised this concession, since they sought confirmation of it as late as February 1944, ~~and~~<sup>when</sup> insurance ~~then~~ became a U.K. obligation on shipment from these branches.

In November <sup>1941</sup> it was decided that it would be best to discontinue sending West African gold to South Africa and to begin experimental shipments to London by naval vessels, freight being for U.K. account. The insurance arrangements and other charges remained unchanged. No opportunity for shipment, however, occurred until January 1942; but by August of that year the Admiralty were said to have given good service. <sup>West African</sup> Gold received at the Bank by this means amounted to:-

1942	£7.1	millions
1943	5.1	"
1944	4.8	"
1945	2.8	"

On gold sent from East Africa to South Africa it was agreed, in July 1940, that air transport charges should be met by the producers, but that the Bank of England would bear the charges when shipment by sea was necessary.

India

There was no question of buying the output of the mines in India, as in the war of 1914/18, and the relatively small amounts produced were doubtless sold on the Bombay market.\* Transactions in gold, however, took place through the Reserve Bank of India. About a fortnight after the Munich Pact the Bank of England informed the Reserve Bank that they had it in mind to accumulate some gold in Bombay as opportunity offered, up to say £15 million: "..... Our plans have nothing to do with current conditions but are being laid with a view to any possible future emergency".

The Governor of the Reserve Bank was a little apprehensive that the buying of gold for eventual export might not be popular with nationalist opinion; and another objection was that arrangements for transforming India's export surplus of gold into sovereigns to be sold at a profit to hoarders would be interrupted. Nevertheless purchases took place in Bombay ~~until the end of June 1939~~ ~~when about £10½ million had been accumulated.~~ ~~until the end of June 1939, when about £10½ million had been accumulated.~~

The Bank of England had made it clear that they would be guided by the wishes of the Reserve Bank: "The choice of Bombay as a kind of reserve reservoir on a small scale was made from the point of view of marketability, in the belief that India will be ready, in principle, to take gold, in almost any conceivable circumstances." (L. 31.10.38).

The price offered by the Bank of England was based on the outturn of gold in New York. In order to buy gold in Bombay at a price which would permit shipment to New York if desired, with an outturn equal to that on shipments from London, the price offered in  
Bombay.

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\* India maintained a free market in gold. In the Indian view it would have been impossible to enforce a Regulation requiring the surrender of gold in a country where gold hoarding was so long established and widely spread a practice.

~~London~~ d.

Bombay (October 1938) had to be about  $6\frac{1}{2}$ d. less than the London price; hence India was advised of the Bank's buying price as conditions changed.

On 5th September 1939 the Bank informed the Reserve Bank that they were prepared to buy good delivery bars at  $16\frac{8}{8}$ /- and sovereigns in good condition at  $3\frac{5}{3}$ . If gold was available in Bombay below these parities they should buy for the Bank of England's account at their discretion. The intention at this time was to make regular shipments of gold from Bombay to San Francisco. It was also arranged that the Reserve Bank should take over the dollars resulting from other shipments of gold, so that the British Control could be sure that the proceeds of such sales <sup>W</sup> should reach them.

By November the Bank of England appears to have been thinking of moving all gold in Bombay to Vancouver (<sup>presumably</sup> possibly for transmission to San Francisco). This brought a counter-proposal that an exchange should be effected between the Reserve Bank's gold in London and the Bank of England's gold in Bombay. The offer was refused at the time as the main preoccupation in London was to get gold to America. The suggestion was made again, however, in June 1940, when gold holdings in general were being shipped from the U.K. to North America for safety. The India Office pointed out that there might be "political repercussions out of all proportion to the relatively small amount involved if the U.K. gold holdings were removed from London to places considered safe, while India's gold deposited in London for safe keeping was left to bring up the tail of the procession". Accordingly, at the end of June, about  $\pounds 4\frac{1}{4}$  million of Indian gold was taken over by the Treasury in London against the release of a similar amount in Bombay.

During the second half of 1940 the Bank of England stated that they were prepared to buy gold at any price up to 42 rupees per tola, the current equivalent of  $16\frac{8}{8}$ /- per fine ounce.

From May 1941 to 1944 there were various transactions in sovereigns. The military authorities required these for Secret

Service purposes and obtained them from the Reserve Bank, who in turn recouped themselves from the Bank of England's stock of bar gold. Further reference to these exchanges will be found under the heading of "Sovereigns".

Towards the end of 1945 the Treasury wrote to the Bank suggesting that our gold in India, about £14 million, should be brought home and asking for the Bank's opinion. The Bank's reply stated that ...."any possible advantage of moving this comparatively small amount of gold at this time would be vastly outweighed by the dangers of comment and misinterpretation." (Letters between Rowe-Dulton and C.F.C. 4/12/1944 and 12/12/1944)

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fAustralia

Australia

Prior to the Japanese attack on Pearl Harbour in December 1941 all gold produced in Australia (and in Papua and New Guinea) was delivered to the Commonwealth Bank and Shipped by them to the U.S.A. About six months before Pearl Harbour the Bank of England told the Commonwealth Bank that if any difficulties were experienced they would be prepared to help with special shipping arrangements or would buy the gold themselves at a fixed price, probably holding it at the Commonwealth Bank. The latter expressed a preference for assistance in shipping, but said that they would communicate more fully later.

Nothing more was heard until 11th December 1941 when the Commonwealth Bank asked advice as to whether they should approach the American authorities suggesting that they should buy the gold and hold it in Australia or whether this proposal should go through the Bank of England as an Empire matter. Alternatively, perhaps, the Bank of England would like to buy the gold, but in that event the Australians would have to look to them for their dollar requirements.

The Bank replied that they would discuss the matter with the U.S.A. "as part of our general arrangements with the U.S.A. to meet new conditions". Meanwhile, they were ready to buy the gold in Sydney, boxed for shipment, at 168<sup>s</sup>/- per fine ounce, the proceeds to be paid to the Commonwealth Bank in London. An assurance was given that Australia's dollar requirements would be met "in the normal manner".

This proposal was accepted and it was arranged that settlement should take place monthly on the transfer of the gold to Sydney after refining at the Melbourne and Perth Mints. Including some New Zealand and Fiji gold it was expected that the amount available would be nearly 2 million ounces per annum.

At the end of the year rather less than £250,000 gold belonging to the Bank of England was transferred by the Straits Settlements' Government from Singapore to Australia. This was local production, bought by the Bank through the Chartered and Mercantile Banks of India and normally shipped to San Francisco.

At the beginning of February 1942 the Commonwealth Bank transferred all gold held in Sydney some 700 miles inland to Broken Hill, for greater safety. The Bank of England agreed to the transfer,

which cost them nothing. In October 1944, with the improvement in the war situation, the gold was removed from Broken Hill to Melbourne.

After December 1943 the Commonwealth Bank discontinued sales to the Bank of England and began building up their own resources (with a target of £10 million sterling), paying prices based on London and New York quotations. A year later the Indian gold situation and the complications likely to arise with Australian producers prompted the Commonwealth Bank to seek the Bank of England's confidential advice (cable 16.12.1944). The Governor replied that this raised matters of principle which the Bank were taking up with Whitehall. (There were no further recorded developments) ["Secret papers" 870]. On 23rd June 1945 the Governor of the Commonwealth Bank cabled to say that the Australian reserve was now approximately £10 million, but for the present he was continuing to add to it from Australian production.

At the end of 1945 arrangements were made to transport our Australian holdings to the U.K. by King's Ship. The first consignment left Melbourne on 2nd January 1946 in three destroyers, each carrying £1,000,000.

The following account of purchases from New Zealand, Fiji, Singapore, Ceylon and Cyprus is rather long in relation to the amount of gold represented. It does, however, bring out difficulties (apart from the inevitable price wrangles) which were peculiar to each colony and which it is necessary to examine in some detail.

#### New Zealand and Fiji

A large part of the production of New Zealand (upwards of 150,000 fine oz.) and Fiji (about 100,000 fine oz.) was bought by the Commonwealth Bank. The latter (cable 17.12.1941) said that probably all this gold would in future be sold to them and would be included in their sales to us. It transpired much later (cable 22.1.1946) that since early 1942 practically the whole Fijian output had been shipped to the U.S.A., the Control sooner or later getting the benefit of the resultant dollars through Australia's transactions with the U.K. No other arrangements for the disposal

of New Zealand and Fijian gold were discussed until the war had ended.

In October 1945, having learned of attempts by individual producers in Australia and New Zealand to make direct sales to Egypt to take advantage of market prices well above the "official" level, H.M.G. had asked the Egyptian Government to withhold import licences; but the latter, though sympathetic, refused on political grounds. H.M.G. then approached the Australian and New Zealand Governments, pointing out the likely prejudicial effects of such sales not only on official marketing arrangements but also on the sterling/dollar rate.

On 20th November the Bank, having it in mind to make an offer to buy the New Zealand gold at a fixed price, asked the Commonwealth Bank (with reference to the latter's cable of 17.12.1941) whether they had any objection. There followed an exchange of telegrams, during the course of which the Bank made clear their two main objectives (i) to prevent the sale of newly-mined gold at bazaar prices in Egypt, India and other uncontrolled markets and (ii) to ensure the maximum advantage for the sterling area as a whole from the marketing of sterling area production.

So far as the New Zealand gold was concerned the matter was resolved by the Bank's agreeing (cable 19. 2.1946) that the Commonwealth Bank should continue to acquire it, advising the Bank if and when they should discontinue to accumulate Australian and New Zealand gold. The Bank asked the Commonwealth Bank to have the Fijian gold diverted to Australia and to hold it on Bank of England account, refined and boxed ready for shipment at Sydney or Melbourne, the Bank to pay (172/3d.) on receipt of advices. The reply came that Fiji producers received 8d. an ounce more by shipping to the U.S.A. Here the matter seems to have been left: we have not been buying Fijian gold since then.

Singapore

The gold production of the Straits Settlements amounted to about £30,000 a month. In September 1939 the Treasury arranged, through the Colonial Office and the Governor of the Straits Settlements, to buy the gold at 166<sup>S</sup>/- per fine ounce, and hold it in Singapore. The price indicated that the refining and other charges would be paid by the Bank of England. Purchases were made through the Chartered Bank, the Mercantile Bank of India and the Hongkong & Shanghai Bank; the gold to be of a fineness of not less than 900. The Bank of England resisted a suggestion that two Dutch banks and one American bank should also be employed, thinking it undesirable that foreign banks should know when shipments were to be made.

The intention was to ship by P. & O. to Hongkong, and thence by Canadian Pacific to Vancouver and on to San Francisco for refining. 90% of the value was to be paid at once and the balance after refining.

In August 1940 the offer of 168<sup>S</sup>/- available to Empire producers was extended to the Straits Settlements. Now, however, refining costs and melting losses were to be paid for by the sellers; insurance by the Bank of England.

In May 1941 about £440,000, the total accumulation in Singapore since January 1940, was taken by naval vessel direct to San Francisco.

In August 1941 the Governor of the Straits Settlements suggested using the Pan-American Airways Clipper Service to San Francisco. By October the Bank of England had agreed to this, though the charges were heavy; but as priority was not asked for no such shipments took place before Japan entered the war. A fortnight after Pearl Harbour the Governor of the Straits Settlements decided to send the whole of the remaining gold to the Commonwealth Bank in Australia, whither it went in three consignments, two by air and one by ship. It was then decided to refine the gold in Melbourne as the chances of conveying it to the U.S.A. were remote.

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## Raub

In November 1942 the ~~Raub~~ Australian Mining Co. (the main producer in Malaya) disputed, through the Mercantile Bank of India, a claim by the Bank of England to recover about £450 refining charges. The Australian company had failed to realise that when the price was raised to 168<sup>s</sup>/- in August 1940 it had been agreed that refining costs and melting losses would be met by the sellers. There was a further point - that the outturn ~~when~~ <sup>of</sup> the metal ~~was~~ <sup>when</sup> refined in Australia was lower than when it had been refined in San Francisco. ↩

The dispute continued until April 1943, when the Mercantile Bank settled the account, without its being clear at the time to what extent they would be protected in any post-war claim they might make on the company concerned.

In September 1945 discussion was re-opened with the Eastern banks in London with a view to resuming collection of gold in Singapore. In November the Bank of England offered to buy bar gold, boxed and delivered to Singapore, at the current London price (172/3d. per fine ounce) and good weight unutilated coins (sovereigns, dollars) at equivalent rates. Freight and insurance were for the Bank's account. The producers were to be paid on the outturn after refining in London, 90% being advanced on advice of delivery in Singapore.

In December the Mercantile and Chartered Banks advised the Bank that, although there was no doubt a good deal of gold in hiding, it was unlikely to be attracted by the Bank's price since much higher prices were being offered on the free market. In January 1946 Regulations were re-introduced in Singapore under which anyone entitled to sell gold had to offer it to such authorised dealers and at such price as the local Controller <sup>of</sup> Finance and Accounts, or his Deputy, should determine.

Up to the end of 1945 no gold had been shipped and it looked as though the ~~Raub~~ Company were unlikely to resume activities in Malaya for some time. A letter from the P. & O. in August 1946, however, referred to a telephone conversation with the Bank, who had been enquiring about rates for shipping £200,000.

Ceylon

Ceylon

There was some confusion over the purchase of the quite small gold production of Ceylon <sup>(no stabilites available).</sup> By October 1939 the Bank of England was offering rupees 40.50 per fine tola through the Eastern Bank. At first 90% was to be paid at once and the gold shipped to Bombay, charges being paid by the Bank; <sup>later</sup> ~~then~~ it was to be held in Ceylon and 100% of the price paid at once if the Eastern Bank would guarantee the Bank against loss. Some purchases were made on this basis, but in November complaints were received that the price (below parity with India) would lead to smuggling. The Bank, however, were unwilling to pay more as the Indian price was sometimes above export parity; and in December they suggested that all authorised dealers should buy gold for their own account at the export parity price vis-a-vis U.S.A., arrange shipment, and sell the resultant dollars for optional forward delivery to the Bank of England. The Bank would then pay the current spot official rate. Not only the Eastern Bank, but five other Exchange Banks, should be allowed to make such deals. The Eastern Bank was stopped buying under the old arrangement and asked to send the Bank of England's gold to the Reserve Bank at Bombay.

Some shipments to the U.S.A. took place, but by September 1940 the Governor of Ceylon reported that the arrangements were not working satisfactorily, as the metal was offered in comparatively small quantities, was not minted and was frequently of low gold content, so that authorised dealers were unable to offer locally an export parity price comparable with that offered in Bombay. Smuggling from Ceylon to India continued. Further, there were no assaying facilities in Ceylon and freight to the <sup>U.S.A.</sup> ~~U.S.A.~~ was becoming difficult. He suggested that all gold purchased locally be offered to the Reserve Bank of India, payment to be made on the Bombay mint assay. This change was authorised.

Cyprus

Cyprus

Purchases of gold from Cyprus were made at the suggestion of the Governor of Cyprus, and were undertaken partly for social welfare reasons. *The pre-war output was upwards of 20,000 ounces.*

There were three companies in Cyprus: the Cyprus Sulphur & Copper Co., the Hellenic Co., and the Cyprus Mines Corporation, none of which was primarily a gold producer. They produced pyrites and gold and silver precipitate. *But* under war conditions the revenue from the by-product became essential to enable the mines to operate and maintain employment; *and* owing to shipping difficulties they could no longer get adequate finance from the local banks.

In July 1940 the Treasury and the Bank accordingly made an offer to buy, at 168/- per fine ounce, the entire gold production, boxed and packed for shipment to the branches of the South African Reserve Bank at Cape Town or Durban. The sellers had to pay freight to South Africa, melting, refining and other charges except insurance, and payment was to be made in sterling, 50% of the estimated value being advanced on delivery of the concentrate to the banks in Cyprus.

The concentrate was refined by By-Products Ltd. of Johannesburg, a salvage company formed by the South African mines, who would only buy the concentrates outright, charging a high price for treatment. They agreed somewhat unwillingly to act, as the operation was of a character different from their usual line of business. But there was no alternative refinery. After a time two of the companies, dissatisfied at the methods of By-Products Ltd. ceased to sell their gold under this agreement. One of the companies threatened to close down, but instead began in the middle of 1942 to sell their gold to local speculators, which the Bank of England regarded as Black Market dealing. This company resumed sales to the Bank in January 1943. The Bank, however, in view of the constant difficulties and disputes withdrew their offer. The Cyprus Sulphur and Copper Co. continued to sell to the Bank, although in 1943 the Bank suggested that they should dispose of their gold in *a small contribution to the campaign* Egypt (to reduce purchasing power there). The prospect of an export tax by Cyprus, however, appears to have discouraged this alternative.

Up to the end of 1944 the Bank had acquired about  
£300,000 gold in all under this agreement.

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### British Guiana

Development of the Colony's considerable mineral resources had been hindered by the difficulty of establishing adequate communications. Pre-war production of gold (largely alluvial) was about 35,000 fine ounces, falling to 25,000 during the war when only two mining companies and a number of lone prospectors were producers.

In view of the risks and difficulties of wartime transport and the absence of a local assay office, the gold was not sold to the E.E.Account direct. Such gold as was exported was sold to the United States and Canada through the mining companies and banks (Barclays, D.C.& O, and Royal Bank of Canada) and the dollar resources surrendered to the Control.

### Empire Output: Priority Questions

In the summer of 1941 a controversy arose as to the degree of priority to be given to the production of gold in the Empire (or Sterling Area). The Colonial Office were inclined to think that preferential facilities to gold producers should be diminished, the Bank that they should be increased. Was gold really as important as raw materials of direct use to the war effort, especially now that the U.S.A. had adopted the Lend-Lease policy? Even if it was, should gold mines receive concessions in taxation so that production would be further stimulated - and would this have only the effect of making the working of lower grade ores profitable?

The Bank's views were set forth by Mr. Bolton in a letter of 22nd July to Professor D.H. Robertson at the Treasury, which was successful in convincing the Treasury.

"Thank you for your letter of the 12th July enclosing memoranda, letters and various papers regarding Empire Gold Production. ....

I have studied these papers with care and regret to say that I cannot reach the same conclusions as Caine\* and yourself.

I would first like to deal with the suggestion that gold  
production

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\*Colonial Office

production is no longer of major importance, particularly as it competes with freight space, with other dollar producing materials such as manganese, bauxite, tin, iron, etc. This attitude completely ignores the fact that, bulk for bulk, there is no comparison between gold and, for example, tin, as dollar earners. One ton of gold is worth £275,000 and takes up the space of a case of apples, approximately  $2\frac{3}{4}$  cubic feet. The value of a ton of tin is £275 and takes up the space of two cases of oranges, approximately 7 cubic feet. The comparison between a given volume of gold and bauxite reveals a staggering ratio in favour of gold. It is difficult to believe that the supply of the necessary mining materials for gold mining, as compared with tin, manganese, etc. can to any extent outweigh the enormous advantage in favour of the value of gold. Secondly, although gold pays for war materials, it is not in itself a war material. It, therefore, gives rise to no inter-Allied or Anglo-American controversies regarding priorities and the division or direction of output etc. Transport is another factor weighing in favour of gold: high values can be transported by air - it would be ridiculous to suggest sending base metals by air. Whenever there is an urgent need, we ship gold by warship and have done so on a large scale. This can only be done because gold is Government property and has a high volumetric value.

Finally, the Sterling Area gold production is the largest and most profitable and certain source of foreign exchange we have, even although the Central Pool does not benefit in full. The proceeds of the Free French and Belgian Congo production are retained locally but we are relieved of the necessity of putting up foreign exchange for these areas. Not more than one-half of the South African production is sold to the Empire Exchange Pool, the balance being hoarded by the South African Government. But the rest of the Empire production is either sold as gold to the Central Pool or, as is the case in Australia, converted into dollars which are either sold to the Central Pool or used to relieve the Central Pool of an equivalent demand.

Although Lend-Lease has solved the problem of the dollar cost of American war supplies, we are seriously weakened owing to the impaired position of our Exchange reserves and the contractual liabilities we have to meet in the near future. In addition, we have assumed an actual or contingent liability to pay gold at some time in respect of the surplus sterling balances held by countries with whom we have made a Payments Agreement. We have also the moral and political liability to re-establish, as soon as we can afford to do so, the gold which we have borrowed from the Belgian Central Bank. There are other accumulative liabilities not expressly denominated in gold, such as blocked sterling, the Film Companies' unremittable balances and blocked sterling securities, which I am convinced will cause the maximum of political pressure and friction the longer they remain. At the same time, it is essential that we should have a certain degree of financial independence to enable us to meet the rest of the world, other than the U.S.A., on equal terms. All these considerations drive me to the conclusion that it is in our interest to produce the largest possible volume of gold during the period of the war, irrespective of the fate of gold in the post-war period.

I am quite receptive to suggestions that in the post-war reconstruction it may be necessary to control the output of gold both quantitatively and by measures connected with costs and price. But even if the U.S.A. decide to introduce some restrictions over the import of gold without international agreement, I do not believe that such steps would necessarily result in an abandonment of the use of gold by the rest of the world. Even the U.S.A. cannot fail to recognise the fact that if they refuse to buy gold at some price from the Sterling Area, they must not only invite default on debt, but give up all hope of maintaining exports to the Sterling Area, unless

they

Empire output, cont'd.

they were willing to hold sterling without limit.

There remains the question whether the priorities existing in favour of the supply of materials to the gold mining companies militate against the production of essential raw materials. If they do, I would agree, with some misgivings, that priorities in favour of gold production, while ranking as high, should not rank higher than priorities in favour of tin, manganese, coal, oil and similar war supplies.

As regards Empire production, we have the following particular comments to make:-

South Africa There would appear to be no present incentive to increase gold production if we cannot tap that increase for sterling. South Africa merely hoards the increase, and we get gold only for the value of our exports or Union sterling debt. But it is important to maintain production as we must expect to tap some of the present surplus by a repatriation and it is still more important to induce South Africa to adopt a monetary policy which will require the maximum production of gold.

The Colonies All their gold production is available for the Central Pool. I would therefore suggest that wherever possible an increase in production is of vital interest: provided always that expansion does not conflict with the production of essential war materials.

Australia, New Zealand and India The same arguments apply as for the Colonies, and if additional equipment is required every attempt should be made to supply it. I see no reason why we should not endeavour, in this case and perhaps in certain of the Colonies, to put gold mining equipment under Lend-Lease procedure.

There is another factor on which I do not feel at all competent to comment, namely, the local supplies of labour. In the Dominions it is possible that the demands on available manpower for essential services and munitions will conflict with demands from the gold fields. This is again entirely a matter of balance which can only be settled locally. It is doubtful, however, whether labour considerations need to be taken into account in the Continent of Africa or India.

I agree entirely with the suggestion regarding South African mining companies' requirements and that all demands should be centralised. Such an arrangement should prevent overlapping and overstocking while at the same time ensuring sufficient supplies to maintain current production. Can it be assumed that actual steps are being taken to alleviate the E.P.T. burden on gold mining companies registered in the United Kingdom?"

Russia

Russia.

Prior to 1935 the output of the U.S.S.R. was almost entirely sold to Berlin; but by the end of that year Russia's debt to Germany had been reduced to a low figure, and with production running at perhaps £20-25 million a year\* the outlook changed, and sales to the U.K. and U.S.A. looked like becoming substantial.

In May 1935 the Moscow Narodny Bank in London asked the Bank of England if they would handle shipments of Russian gold to London. The proposal was considered also by the Treasury and Foreign Office (it was regarded as a desirable proposition on political grounds) and eventually arrangements were made and an account opened at the Bank in the name of the State Bank of the U.S.S.R. (Gosbank), who desired incidentally its extension to business other than gold, including the clearance of transactions with other Central banks.\*\*

Meanwhile various shipments of Russian gold came to London and were not dealt with by the Bank but, as it appeared later, by the Moscow Narodny and Chase National banks. It was generally thought at the time that the Russians were building up big dollar reserves in the belief that the dollar price of gold would one day fall.\*\*\*

In ~~April~~, 1937, in ~~a~~ conversations between Mr. Siepmann and the Vice-President of the Moscow Narodny Bank (16th, 19th and 22nd April) ~~it~~ it was made clear that the Gosbank, on principle, did not wish to give the Bank of England the monopoly of their gold dealings in London. On the other hand, Mr. Siepmann pointed out <sup>that</sup> the Russians, as large sellers of gold, would be wise "not to be entirely dependent on the absorptive capacity of the open market".

After a good deal of further discussion on price, collection, storing and assay (Russian bars at first were not good delivery in

P.T.O.

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\*Estimates (of varying authenticity) ranged from this level up to £70 million.

\*\*In July, 1924 the Governor had refused to open an account so long as the Gosbank had accounts with other banks in London. (F.E. 141; fo.15)

\*\*\*In the first four months of 1937 some \$89 millions of Russian gold reached the U.S. Mint. (F.E.141: fo.59).

the London Market),\* transactions on behalf of the Gosbank began, with a shipment of £1 million, on 21st April. By September £14,113,000 had been purchased by H.M.Treasury, at prices ranging from  $139\frac{s}{8}$  to  $141\frac{s}{2}$ .

The Gosbank continued to sell gold through the Bank, sometimes with the request to convert the proceeds into dollars for their credit with the Chase National, New York.

Just before war broke out the Gosbank asked for their balance of gold (63,897 fine oz.) to be transferred to the Moscow Narodny Bank.

In September 1941 the Gosbank asked the Bank to buy 5,000 kilos (approximately £750,000) of gold in Archangel, and to convert, against advice of its despatch to the U.K., the proceeds into dollars for sixty days. This was considered an unbusiness-like proposal: the Bank did not wish to depart from their practice of buying only gold delivered in the British Empire or North America. It was thought, moreover, that the Russians could more suitably obtain dollars by selling gold which it was believed they held in North America.

After representation through the U.K.Embassy in Moscow an Agreement was made (10th November 1941) with the Gosbank that the Bank of England would accept gold delivered to the Federal Reserve Bank in San Francisco. (Deliveries to Vancouver, Karachi or to the captain of a British naval vessel were also acceptable). On receipt of advice of delivery an advance of 95% would be made. The price ( $173\frac{s}{2}\frac{d}{4}$  per fine oz.) represented the U.S.Mint price of \$35 less handling, melting, etc. charges.

The price caused some argument, since the Russians thought it should be the New York buying price. The Ambassador in Moscow agreed, however, with the Bank's figure and was supported by H.M.G.

There was a side issue to this. The U.S.Government had advanced \$10 million to the Russians against future arrivals of gold. When \$5½ millions reached San Francisco the Russians

ordered

\*All required a London assay and some required re-melting.

ordered its sale for their own account, and only after considerable trouble did they use it towards repaying the advance. (L.2.10.41, Bewley to Waley.)

At the end of October a large shipment (321,475 fine oz) by British naval vessel was consigned to the Bank and the advance (£2,565,370) credited to a special suspense account of the Gosbank opened under the terms of the Agreement.

The transport incidentals of this gold are not without interest. The gold was landed at Thurso, and seems to have involved not only changes of trains at both Inverness and Perth before being received by representatives of the Bank's Glasgow location on its way to London, but also special police escort throughout. On one subsequent shipment the Customs at Glasgow attempted to open boxes, but were dissuaded.

On 23rd January 1942 H.M.G. cabled to the Ambassador (now, with Moscow evacuated by the Russian Government, in Kuibyshev) for advice as to further shipments of gold. The value of British goods en route to Russia had so far exceeded Russian gold sold to the U.K.; and accounts with the Bank of England had to be settled (though not until 1st November) as to 40% in gold.

On 24th February a consignment of £3 $\frac{1}{4}$  million by warship from Murmansk arrived via the Clyde and Glasgow location, and a further £4 million on 23rd April.

The first consignment (in the previous autumn) had been settled on the basis of the Russian assay, with an understanding that adjustments might be necessary later. A double assay was made in London of 1 bar in every 20 of the last three consignments (viz., 31st October, 24th February and 23rd April). The fineness claimed by the Russians was .9999 in each case; but the London assay found that only 29 out of 154 bars assayed had this fineness, 1 bar <sup>being</sup> as low as .9994 and the average .999774 (Note 19.5.42, Bullion Office).

No further gold arrived from Russia until early in December 1943, when a shipment of bars (£938,476) which had been held for the Bank for several months at Murmansk, reached London via Thurso. Gold

continued to be deposited for the Bank's account at Murmansk and Archangel and to be shipped at irregular intervals as transport became available.

On 20th November 1945 the Bank informed the Gosbank (with reference to the 1941 Agreement) that now hostilities were ended they would rather take delivery in London (at <sup>s</sup>172/<sup>d</sup>3).  
Replying (26th December, 1945), the Gosbank found the price unacceptable and preferred that the agreement should remain in force, and further that shipments should now be by commercial vessel.  
The Bank regretted (24th January 1946) that they could not offer a better price in London, but <sup>said</sup> that it would be satisfactory to them if the Gosbank preferred to ship to New York and buy sterling with the dollars realised (at 4.03). The Gosbank (10th February 1946) asked the Bank to reconsider discontinuance of deliveries to Murmansk. The Bank's reply (25th February 1946) stated that that arrangement had stood so long as shipment could be by naval vessel: now that none were available the position required revising because of shipping and insurance expenses. The Bank were prepared to meet these for gold deposited before 20th November, 1945, but for subsequent deposits could not give a better price than that offered.

The final outcome (cables 26th March, 1946 and 4th April 1946) was acceptance of the Bank's terms. The Gosbank would continue to be credited with a 95% advance against deposit at a Russian port and would ship to London at their own expense, to realise sterling at <sup>s</sup>172/<sup>d</sup>3. They pointed out, however, that the irregularity of voyages might at first make it impossible for them to convey gold to London in time to meet payments due periodically on their No.1 account.

At the end of March 1946 the Bank was holding about £3½ million at Murmansk, which was finally brought home in two consignments <sup>in 1947</sup> (£2,076,000 in June and £1,384,000 in July).

Other

Other sources overseas.

Apart from the purchase of newly-mined gold, the Government and the Bank took such opportunities as offered to buy gold in any form and place available. In particular, arrangements were made to purchase gold in the Channel Islands, British Honduras, Malta, Mauritius, Newfoundland and Palestine, and there were also receipts from the Middle East and East African Commands.

Channel Islands

Small amounts of sovereigns and other gold coins were bought by the branches of all the "Big Five" banks and by the State Supervisor of Guernsey during the early part of 1940. On 19th June, eleven days before the invasion of Guernsey, the Bank asked that the holdings should be packed by Lloyds Bank and by the State Supervisor and sent to London, and apparently no losses were incurred.

British Honduras

In October 1939 the Bank arranged to buy gold from the Governor of Honduras, - such American eagles and sovereigns as might be requisitioned or offered to him, and to have the gold shipped to Ottawa. But in the following month the Colonial Office informed the Governor of British Honduras that as his currency was based on the U.S.dollar he should not requisition gold, and should only <sup>buy</sup> ~~sell~~ it if the vendor would accept sterling. A small amount of gold was forwarded to Ottawa in November.

Malta

In June 1944 the collection of gold in Malta for sale to the Bank of England was suggested, and the Treasury agreed that gold could be held in Malta for the Exchange Account. Although the Colonial Office were a little disturbed as to whether the sale of gold might not produce some inflation in the local currency, arrangements were made for Barclays Bank to act as the Bank's agents. No gold had been bought up to the end of 1945.

Mauritius

Between the beginning of the war and May 1940 a small amount of gold was shipped to London and sold on the market. In July some was sent to India, but further shipments were stopped by

the

the Colonial Office, in agreement with the Bank, as the proceeds of gold sold on the Bombay market were lost to the Control. Some further shipments to London took place during 1941.

#### Newfoundland

In 1939 and 1940 the Bank bought about £9,000, mostly in eagles.

#### Palestine

In March 1940 Barclays Bank stated that some gold would be available in Palestine if the Government would take action; and in August arrangements were made to purchase gold at 168<sup>s</sup>/- per fine ounce, the metal to be shipped to the South African Reserve Bank. Charges were to be paid by the seller except that the Bank of England would cover insurance of gold despatched by sea. No such shipments appear to have taken place, though certain small amounts of gold were acquired and held by the Treasury in Palestine from time to time during the war.

#### Army Commands

The occupation of Abyssinia and other parts of the Middle East and of East Africa resulted in the Army acquiring both gold and silver.\* There was some argument as to whether such acquisitions should be defined as "booty" or whether they should be handed over to the Custodian of Enemy Property. In January 1942 it was decided to dispose of the metal, but to regard it as held by the Custodian until the peace settlement. The proceeds of the sales were to be credited to the War Office, but might have to be refunded eventually. Gold captured from the Italian army in Abyssinia in July 1941 amounted to a little less than £100,000, and this was sent to the South African Reserve Bank, who disposed of it. There were some further amounts, about £10,000, <sup>in all,</sup> received in June 1942.

#### Collection

\* About 24 million silver lire were collected from various sources, and were also sold to the Reserve Bank, realising nearly £90,000. All this silver was resold to the South African Government, who had suffered a loss at sea of some silver from India and who paid for it at the same price at which the Indian supply had been bought (32.028d. per ounce standard).

Collection of Gold Coin in the U.K.(a) From Bankers

Under the Currency and Bank Notes Act of 1928 the Bank of England had power to call in gold holdings in excess of £10,000, and most of the bankers' gold was collected in September 1931. There remained, however, more than £200,000 and this the banks were asked to surrender in September 1939 under the Defence (Finance) Regulations. It took over a year to collect, the Irish banks not being approached till August 1940. Some of the Scottish and one of the Irish banks claimed that their gold coin should be paid for at the current price and not at face value. The Bank referred to correspondence in 1932 and to the fact that they could have called the coin in at any time since the Act. (Between 1928 and September 1931, of course, there was no difference between face value and market price.). On the other hand the banks claimed that they could have sold the coins at a premium, and the Royal Bank, who were one of those who objected, did in fact sell their coin through an Authorised Dealer at 39/3d. per sovereign, but eventually adjusted the matter. The Bank of Scotland asked to whom the profit on the coin would go, and were reminded that the profits on the Issue Department were paid to the Government.

Eventually the Bank collected £218,000 (face value).\*

As on the previous occasion the Bank agreed to pay the expenses of transit where it occurred.

(b) From the Public

A large amount was received from the public directly, or through Authorised Dealers. Not counting the Bank there were six of these: Johnson Matthey & Co., N.M. Rothschild & Sons, Mocatta & Goldsmid, Sharps & Wilkins, Pixley & Abell and Samuel Montagu & Co. For sovereigns so received the price was 39/3, which closely

corresponds

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\*One Irish bank was allowed to keep £10 "for Roman Catholic marriages"; Drummonds' Branch of the Royal Bank were allowed to keep some gold for secret service purposes, apparently about £1,300; and Glyn Mills were authorised to retain £750.

corresponds to the bullion value of a sovereign at the price of 168/- per fine ounce.\* While the public should have surrendered their gold in this way only, a considerable amount was evidently sold to jewellers, and these not only did not always pay the legal price - sometimes offering less and sometimes much more - but apparently did not always surrender the coin to an Authorised Dealer or the Bank. Some of such gold was doubtless used in the manufacture of jewelry, and some probably resold to hoarders. At one time in 1942 sovereigns in Hatton Garden were said to command a price as high as 57/-, and it was alleged that members of the Czech and Polish Forces were buyers, as well as (at all times) some refugees in transit. Nevertheless, the bulk of the coin so collected doubtless found its way to the Bank, and the Treasury were not anxious to prosecute, even where firms were advertising freely for sovereigns at £2 and more. It had always been recognised that jewellers were a useful channel for the collection of gold coin and the Treasury made it clear to the Goldsmiths Company, who informed their members, what was and what was not legitimate. The National Association of Goldsmiths was also helpful in calling attention to advertisements offering high prices, etc. There were, it is believed, a few prosecutions, though not, it seems, at the instance of the Bank, and probably rather because of other breaches of the law. The Police, however, were informed by the Bank of apparent violations of the law, and visited various firms in order to examine their books and warn them. In the majority of cases purchasers pleaded ignorance of the Regulations. In September 1940 the Bank approached the Newspaper Proprietors' Association and the Newspaper Society, who advised advertising agents and newspapers of the fact that advertisements for sovereigns at a price in excess of the official quotation were not permitted. Altogether, by the end of 1944 £3½ million Imperial gold coin (bullion value) had reached the Bank, of which £2 million was paid in during the first year of the war.

Safe Deposit Gold

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\*Fixed by the Bank: see "Defence (Finance) Regulations".

Safe Deposit Gold

It was believed that a good deal of gold was held in Safe Deposits and in safes rented from banks. As no records were kept by the Managers of Safe Deposits of the contents of their customers' safes it seemed possible to proceed only if strong suspicions of enemy ownership arose in particular cases through information obtained from other sources. In September 1939 the Bank were secretly informed that a large amount of gold was lodged with the City Safe Deposit under a neutral name but belonging to German interests (Thyssen). It was a long time before sufficient evidence could be accumulated to persuade the Government to take the responsibility of having four strong rooms in this Company's premises broken open, but this was eventually done on 4th July 1940 and gold valued at about £3.1 million taken over by the Custodian of Enemy Property.

There was a great deal of discussion in 1940 and 1941 about the possibility of getting safes opened in one way or another, but the Treasury (L. 28.10.1941) finally took the view that logically there was no more justification for searching Deposit Safes on suspicion than for opening locked drawers in private houses. After this the subject was dropped.

The banks also held some £20-25 million\* of gold for account of non-resident non-enemy depositors.

"Hoards"

At the outbreak of war stocks, mainly in foreign  
ownership

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\*Thus, £20-25(+X) million would account for part of the £150 million exported from other stocks ("Hoards") in 1939-40. [See also under "Purchases" in the main text].

ownership, outside the Bank, for which only estimates\* are of course available, may have been as high as 16 million fine oz. and cannot have been less than 10.4 million (£87 million @ 168/-) since that amount is required to supply the balance of net exports during the first year of war which were not derived from gold held by the Bank, as shown by the following figures:

	<u>Net Export</u>	<u>From Bank</u>	<u>From Home Trade</u>	<u>From "Hoards"</u>
(Million fine oz.)				
Jan.-Aug.1939	42.45	34.74	.05	7.66
Sep.1939-Aug.1940	<u>82.97</u>	<u>72.52</u>	<u>.02</u>	<u>10.43</u>
In 17 months	<u>125.42</u>	<u>107.26</u>	<u>.07</u>	<u>18.09</u>

Thus, more than £150 million had come out of these outside stocks since the end of 1938. Bullion Office records show that £43½ million had been received by the Bank under the Defence (Finance) Regulations between the outbreak of war and the end of August 1940, and £45½ million down to the end of 1945.

Stock

\*i.e.the cumulative monthly differences (since Sept.1931) between net imports or exports and the net increase or decrease in gold held at the Bank (Issue Dept., H.M.Treasury and gold held under earmark, or pledged). These figures indicate that the following amounts were "hoarded at the undermentioned dates:

	<u>million fine oz.</u>
Ending 1938	24.0
Outbreak of war	16.4
End of August 1940	6.0"

Stock of manufactured articles in U.K.

During the first war year there was much discussion as to how much gold was held in this country in the form of jewelry, and other manufactured articles, and whether any steps should be taken to mobilise it. The Treasury's first estimate (valuing gold at 168<sup>s</sup>/- per fine ounce) was £400 million, a figure which they themselves thought must be much too high. Ingenious attempts to arrive at closer estimates were made by the Bank and by Rothschilds. The combined value of the gold in watch cases and watch chains, rings, cigarette cases, pens and pencils and jewelry did not seem likely to exceed £60 million. Yet such other statistical data as were available indicated that the total of manufactured gold could not be less than £250 million.

The easiest way to collect such gold would of course be through gifts, but they would not be likely to yield much, whether or no an appeal were made for the surrender of specified objects only.

If payment were offered there would be difficulties of valuation and delays in settlement; also numerous and troublesome exceptions to be decided upon if all gold were requisitioned, and evasion would be easy. The effect on the trade might be adverse both from immediate and long-term points of view, and politically such action might be disadvantageous, especially in view of possible American reaction. Eventually nothing was done. Some gifts of course were made, but as donors handed their possessions partly to the Treasury, partly to bullion dealers and partly to the Bank, no estimate can be made of their total value.

The holding of the Issue Department's gold abroad had been permitted by an Order of Court of 14th January 1932, evidently intended as a temporary arrangement as it was confined to "such period as the gold standard is suspended by this country". The establishment of the Exchange Equalisation Account fundamentally altered the position and thenceforward the Issue Department gold was regarded as virtually interchangeable with that of the Exchange Account.

In July 1938 the Treasury agreed to accumulate the following amounts abroad:

Ottawa	£65 million
Pretoria	£60 "
Bombay	£10 "
Buenos Aires	£15 "

These stocks were to be built up over a period of six to eighteen months/ (South Africa). Subsequently it was decided not to hold so much gold in the Argentine. Meanwhile, during the Summer of 1938, all gold held by the Exchange Account in Europe was repatriated.

During November and December 1938 the bulk of the Treasury gold then held in Ottawa and Pretoria, about £40 million, was transferred to the Issue Department to meet the needs of the Exchange Account for sterling, and in February 1939 there was some talk of leaving it with the Bank as an "iron ration". But if this were done, at whose risk would the gold in fact be held? The Bank thought it safest to transfer the gold back to the Exchange Account, and this was done in March.\*

A statement at the end of this section shows the location of the Bank and Treasury gold before and during the war, and some account is given below of activities in the principal centres: London, Ottawa, New York, South Africa, Bombay and Buenos Aires. At various times gold was also held during the war in Bagdad, Beirut, Cairo, Karachi, Palestine, Paris, Russia, Singapore and elsewhere.

The big movements were from London to North America, from May to September 1940, about £700 million, and a reverse flow from January to November 1944, when about £166 million came to London from the U.S.A.

\*The embargo on Czech assets in the U.K. appears to have given rise to fears that the Bank of England's assets abroad might be subject to attachment and that if held by the Government they would be safer.

London

At the time of the Munich Crisis there were considerable imports from Europe and exports also increased: the Federal Reserve Bank of New York decided to repatriate the greater part of their holding at the Bank of England, beginning in July 1938, and H.M.Treasury began to export gold to New York on 12th September. In the five days before and including 30th September £46 million (at the statutory price of  $77\frac{s}{d}{10}\frac{1}{2}$  per oz.std.) were packed for export. Imports in this month were £48 million and exports £107 million.

After the Munich Agreement imports from Europe became negligible until the Spring of 1939. Exports (for the sake of security) on account of the Federal Reserve Bank, and at times for the Treasury (to acquire dollars), continued into the Spring. In October and November the Bank were selling Eagles on the market at a premium.

(No gold from South Africa was received between 23rd September 1939 and the ~~Spring of 1939~~ <sup>end of 1941</sup>).

Near the end of November 1938, £10 $\frac{1}{2}$  million of gold was transferred from the Issue Department to H.M.Treasury against gold in South Africa, and another exchange (£34 million) was made in Ottawa in December. (Issue gold had been held in Paris and New York in 1933, but not in South Africa). Both exchanges were reversed in April 1939.

On 6th January 1939, £200 million of gold (at the statutory price) was transferred from the Issue Department to the Treasury. In February gold was first earmarked in South Africa against a release of gold in London, where South Africa needed sterling funds.

On 1st March the gold in the Issue Department began to be valued at the current market rate, the first price applied being  $148\frac{s}{d}{5}$  per fine ounce.

In April and May imports amounted to £86 million and exports to £162 million. In the following three months imports dropped to £28 million but exports held up to £131 million.

Two days after the declaration of war the Bank's and the Treasury's gold was revalued at  $168\frac{S}{-}$  per fine ounce\*, at which price it remained unaltered until 9th June 1945<sup>4</sup>, (when it was raised to  $172\frac{S}{3d}$ ). On 6th September, the Issue Department's holding, with the exception of 30 bars (£102,189), was sold to the Treasury. The sale comprised some 22 million fine ounces of bar gold and £47 million (face value) Imperial gold coin which, at the new price of  $168\frac{S}{-}$ , together amounted to approximately £279 million.

Under the Defence (Finance) Regulations gold had to be offered for sale to the Treasury, and in the first war year (September 1939 to September 1940) bar gold to the value of £43 $\frac{1}{2}$  million was paid in, together with approximately 850,000 sovereigns and \$1 million in eagles, by authorised dealers, banks and the public.

The large amount of gold held for overseas Central Banks, and the frequency of movements at a time when there was a shortage of staff, led the Bank on 29th May 1940 to the decision that such holdings should no longer consist of specific bars but merely of an equivalent number of fine ounces in the books. The Central Banks were informed that no weight lists would be furnished in future, and that those supplied in the past were no longer applicable. Any bars in their existing holdings which might prove to be unacceptable on the London Market would be made good delivery at the Bank of England's expense, but in the case of future consignments this would be a liability of the depositor. This change greatly lightened the work of the Bullion Office. The Bank were reverting to the practice followed by them up to the late 'twenties.

As related under the headings of "Ottawa" and "New York" the Bank began on 18th May 1940 to pack all gold for despatch abroad, and by 1st June £400 million had been packed. By 5th July only about £17 million of Treasury gold, and £48 million of Central Bank gold remained in London out of a stock amounting at the beginning of the war to £324 million for Issue Department and Treasury, and £286 million for Central Banks. In order to accelerate the packing of the gold it was decided to suspend temporarily the process of banding boxes with iron hoops. Some boxes consequently burst in the course of shipment

\* Currency & Bank Notes Act of 1939, Sec.2.

The possibility had been anticipated and spare boxes provided; no losses took place. The Treasury took the risk of all these shipments and some of the Central Banks were neither consulted nor advised of this transfer. The Bank of France, however, took the initiative and the National Bank of Belgium were consulted. At the end of June Set-Aside gold was divided into three groups:-

1. Discretionary powers to ship £168½ million
2. Specific instructions to ship £48½ million
3. Remainder £33 million

By July 2nd all of (1) and (3) had been shipped but only £2 million of (2). *At first sight this order of shipment is perplexing. But standing instructions were not interpreted rigidly; and in summer of 1940 pressure on shipping dictated a "go slow" policy towards many small holdings in total aid of a few very large ones as quickly as possible (e.g. H.M. Treasury, France, Belgium).* The Governor was at first against moving gold without instructions; but later the emergency did not justify delay.

By the end of the first war year the Bank had shipped to Canada nearly £330 million Treasury gold and £232 million of customers' gold, and to New York a further £82 and £53 million, respectively, or a total of about £697 million.

Movements both in and outwards were small in the next twelve months, but on 26th September 1940 gold began to be received under a scheme whereby owners of "foreign-owned gold", whose applications to export had been refused, were allowed, and in some cases encouraged, to deposit their gold with the Bank of England on the understanding that 95% of the fine contents would be made available to them at the Bank of Canada, Ottawa, one month after the expiration of the Emergency Powers (Defence) Act 1939.\* Imperial and foreign gold coin (mainly dollars and francs) and bar gold amounting to some £4½ million were received in amounts ranging from a few ounces to a quarter of a million ounces, and exported to Canada.\*\*

Towards the end of 1941 South African bars and raw gold from West Africa began to arrive by "special" shipments. By the end of 1942 £42 million (including nearly a million sovereigns) from South Africa and £7.1 million from West Africa had been  
received

\*The duration of this Act was for one year, extended <sup>in</sup> the Emergency Powers (Defence) Act of 1940 to two.

\*\*The last deposit was made on 17th June 1941, after which the scheme was allowed to lapse.

received. In 1943 £34 million arrived from South Africa and £5.1 million from West Africa.

In 1944 arrivals from New York amounted to £166 million. Nothing came from South Africa, but a further £4.7 million from British West Africa and £6.3 million (on Bank Polski account) from French West Africa. In 1945 there arrived (February, May and December) £17 million from South Africa and (June to December) £2.8 million from West Africa.

Between October 1941 and the end of 1945 total receipts from Russia amounted to just under £22 million, mainly in 1942 and 1944.

Exports in 1941/2 amounted to a bare £10 million, of which over £8 million were for Canada in early 1941.

In 1943 sales in India and the Middle East began, and involved the manufacture by Rothschilds of small ingots (1½ million ounces in all) for export to the National Bank of Egypt and the Reserve Bank of India. Shipments to India amounted to £10.5 million in 1943, £48.3 million in 1944 and £4.2 million in (February and March) 1945. Egypt took £11 million (end of 1943 and June 1944). Between November 1943 and November 1944 £1.7 million were shipped to Spain,\* and (October/November 1944) some 880,000 Sovereigns to Greece.

In February 1944 the Treasury announced that there would be no recognition of the transference of title in respect of gold looted by the Axis powers in occupied countries, and disposed of in the world's markets. The Treasury would not purchase gold from any country unless they were fully satisfied that it had not been acquired directly or indirectly from the enemy.

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\* The outcome of a decision to give the Spaniards gold for their sterling, in spite of their pro-Axis attitude.

Ottawa

In the Spring of 1938 the Bank held at the Bank of Canada gold valued at about £14 million at current prices. This had been accumulated over a period of two years, partly by the purchase of gold produced in Canada. In April the Bank thought it advisable to build up their stocks in North America in view of the large movements of funds by which the market tended to be disturbed. When the movement was towards America there were sometimes insufficient liquid resources available. The ability of private arbitrageurs to undertake gold shipments was limited, and shipments in any case had to be distributed according to the capacity of the insurance market. In a crisis the inadequacy of existing arrangements might be serious.

The Bank preferred not to hold this reserve in the United States, for fear of publicity and because the policy of the U.S. Treasury seemed "to betray some lack of continuity" in questions affecting gold. They therefore obtained the agreement of the Bank of Canada to receive gold up to at least \$250 million and, as agents of the Government, to exchange some U.S. gold coin against sovereigns, which Canada had been selling at a premium in London.

The Bank decided to avoid direct shipments from London and first to transfer gold held by them with the Bank of France.\*  
~~As regards~~ As regards coin they proposed not to effect an exchange of sovereigns for eagles but themselves to supply the market with sovereigns at about their bullion value; this might affect also the premium on eagles and hence increase the inducement to the Canadians to market their remaining stock. The premium on eagles did eventually vanish, though the Bank secured a small premium on some \$1 $\frac{3}{4}$  million eagles<sup>sold</sup> in London in October and November.

The first shipment, from Cherbourg, towards the end of April, became known to the Press and occasioned much comment. The general opinion seemed to be that the Bank were building up an emergency reserve in case war broke out. No further movement took place at this time since there appeared to be a possibility of diverting gold to Ottawa from New York by an exchange of gold with the Bank of France.

In

\*About £33 million was held in Paris.

In August the Bank of Canada suggested that any gold intended for them should not be despatched to Ottawa but earmarked for their account with the Federal Reserve Bank of New York against the setting aside of the same amount for the Bank of England in Ottawa. With the approach of the Munich crisis in September, however, gold shipped to New York was sold for U.S.dollars. But various small shipments to Canada took place during 1938 and one large one at the end of September. In December an account was opened in Ottawa for the Issue Department, who had made an exchange of gold in London with the Exchange Equalisation Account, a transaction which was reversed in April 1939.

In the Spring of 1939 shipments to Canada took place on a large scale; from the third week of April to the end of May nearly £40 million gold was shipped from the U.K. by liners; of this, however, over £30 million belonged to the Bank of France. The motive was now fear of war - and the Press was showing little surprise over the movements. Gold was also being shipped to New York.

In May the opportunity of the King and Queen's visit to Canada was taken to send a further £30 million by H.M.S. "Southampton" and "Glasgow"; and in this case the gold reached Ottawa without comment, except from one Quebec French newspaper. Some gold was also bought in Ottawa against payment in U.S.dollars.

By the middle of May about £75 million gold (at various current prices) had been accumulated by the Bank of England in Ottawa, and the Treasury agreed that the total in North America should be raised to £120-150 million, of which £50 million might be held in New York.

At the outbreak of war the Bank were anxious to get their gold out of South Africa and to ship as much gold as possible, including the South African, to North America. There were in South Africa some £40 million, and the stock was likely to increase by at least £1 million a week. It was estimated that in addition to moving the existing South African gold stock the need over the first 12 months of war would be to ship about £200 million, of which another £50 million should come from South Africa. Actually, the Admiralty settled down to a programme intended to cover £150 million.\*

\* By the end of May 1940, however, £200 million had been despatched to North America from London.

The stock of gold in Ottawa at the outbreak of war amounted to some 9 million fine ounces (£76.4 million at 168<sup>s</sup>/- per fine ounce). More than 9.8 million ounces were held in Ottawa on 22nd May 1939, but had not been added to in the three months before the war, though movements to New York had continued. At the end of August three shipments of about £3 million each were made to build up the Ottawa Account.

The Bank and the Chancellor approached the Admiralty in order to obtain the South African gold as quickly as possible. The Admiralty first thought the best plan would be to ship from South Africa to London under naval escort and re-ship by cruiser, but soon came to the opinion that shipments from South Africa would have to be postponed. It was therefore necessary to move gold from London, and some £10-12 million were despatched in each of the last three months of ~~the year~~<sup>1939</sup>. The Admiralty at first made shipments by fast liners, armed merchant cruisers, large cruisers and battleships, but in November they were using only warships employed on convoy escort duties. In February 1940 fewer naval vessels were available, and from April the Bank began to use Cunard and C.P.R. liners, the French and Prince lines, and later the Donaldson Anchor, Furness & Bristol City lines and Manchester Liners Ltd., sending from £250,000 to £1 million in each ship. Arrangements were made to store gold at various ports.\*

Large shipments from London to Canada continued for the first seven months of 1940, but chiefly in May and June on the threat of invasion.

In

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\* November 1939, Plymouth Branch; March 1940, Liverpool Branch; May, Southampton Branch; Royal Bank of Scotland and Commercial Bank of Scotland, Glasgow; Martins Bank, Liverpool; June, Barclays Bank, Cardiff. Notice of sailings was sometimes inadequate and transport was liable to interruption during the "blitz", these arrangements obviated both difficulties. But by April 1943 no gold was held outside London.

In May shipments to Canada were £80,247,000 and in June £131,235,000. Nearly £200 million were on the water in the first week of July.\* This must have been the greatest amount of gold ever risked at one time on the ocean. (The shipments were not insured as they could not have been replaced). Fortunately there were no losses.

The first shipment to Ottawa from elsewhere came in February 1940 when £1 million arrived from Bombay, and early in March a first shipment was received from Cape Town; both had been despatched in the middle of November. In each of the ensuing months, except August, there were further arrivals from the Cape, though not amounting to many millions. These shipments were made in merchant vessels trading from Cape Town to Sydney and from Sydney to Vancouver, the easterly route being considered safer. There were also one or two more receipts from Bombay, but subsequent shipments from India were diverted to San Francisco.

~~Ottawa gold also benefitted to the extent of £25,200,000~~

In 1941 Ottawa stocks were also increased by £25.2 mn. transferred from gold set aside for the National Bank of Belgium, which had been shipped to Ottawa in May 1940. Early in March 1941, at a time when U.K. reserves were suffering acute shortage, the Belgian Government agreed to lend H.M.G. up to 7 million fine ounces . . . " to be used for the prosecution of the war", and delivery was taken of 3 million ounces on the 6th March, which were then set aside for the E.E. Account. Under the Agreement (4.3.1941) repayment, ounce for ounce and by half-yearly instalments, was to begin six months after the end of hostilities between the U.K. and Germany. In 1943, however, with the reserves in much better shape, H.M.G. waived their right to borrow the further 4 million ounces and repaid the 3 million on the 9th March.

*Also . . . . .*

place which built up the stock in Ottawa at the expense of holdings in South Africa and elsewhere. There were also receipts from the Bank Polski and the National Bank of Turkey.

P.T.O.

\* £151½ million in 3 naval vessels, £41 million in Monarch of Bermuda, all to Ottawa, and £6 million on Eastern Prince to New York.

~~\*\* The gold had been shipped to Ottawa in May 1940.~~

The stock of gold in Ottawa at the outbreak of war amounted to some 9 million fine ounces (£76.4 million at 16<sup>s</sup>/- per fine ounce). More than 9.8 million ounces were held in Ottawa on 22nd May 1939, but had not been added to in the three months before the war, though movements to New York had continued. At the end of August three shipments of about £3 million each were made to build up the Ottawa Account.

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~~⊙ Ottawa gold also benefitted to the extent of £25,200,000 (5 million ounces) by the delivery on 6<sup>th</sup> March 1941 of the gold lent by the Belgian to the British Government, a loan repaid in 1943.~~

After the beginning of August all Treasury gold had reached North America from London and no more shipments took place until January 1941. (Small shipments of Central Bank gold to New York, however, continued in the Autumn). In the first quarter of 1941 there were three further shipments of Treasury gold to Ottawa, aggregating about £3½ million.

With the passing of the Lend-Lease Act in March the need for dollars became <sup>less</sup> pressing. In 1941, however, there were arrivals from the Cape and Durban up to April, and exchanges of gold took place which built up the stock in Ottawa at the expense of holdings in South Africa and elsewhere. There were also receipts from the Bank Polski and the National Bank of Turkey.

P.T.O.

\* £151½ million in 3 naval vessels, £41 million in Monarch of Bermuda, all to Ottawa, and £6 million on Eastern Prince to New York.

\*\* ~~The gold had been shipped to Ottawa in May 1940.~~

At the time when the Lend-Lease Act was signed  
(11th March <sup>1941</sup>) there had been shipped to Canada nearly £332  
million of Treasury gold, of which £136 million was trans-  
ported by liners and £196 million by naval vessels.\*

Meanwhile more Central Bank "set-aside" gold and  
some "foreign-owned" gold was shipped. Set-aside gold trans-  
ferred to Ottawa amounted in December 1941 to about £222 million  
(£47 million by liners, £175 million by naval ships) and foreign-  
owned gold to £4.4 million. In 1942 there were further receipts  
of Bank Polski gold. In November 1942 it was decided in agree-  
ment with the Treasury to repatriate to London the gold holdings  
of customers which had been evacuated to Ottawa in 1940 by  
effecting "switches" against gold in London. It was also agreed  
that the Treasury should pay the original cost of exportation  
incurred in 1940.

The first switch took place on the 15th December when  
1,455,061.771 fine ounces bar gold and 1,054 sovereigns were taken  
over by the Treasury in Ottawa from the "set-aside" gold holdings  
there against the release of the same quantities to the various  
customers in London. This operation transferred back to London  
all the holdings in Ottawa with the exception of those of the  
Banque Nationale de Belgique, Custodian of Enemy Property (Bank of  
France) and the Banque Nationale Suisse. The Swiss holding  
(3,446,397 ounces) was exchanged on 30th December.

The holdings of the Banque Nationale de Belgique and  
the Custodian of Enemy Property remained in Ottawa; since the  
Belgians had paid the expenses of shipment to Canada, and there  
was not sufficient gold available in London to effect the  
exchange; nor was it considered expedient to switch the  
Custodian's holding because of the potential claim for expenses  
against the Bank of France.

In view of the demand for sovereigns which arose later  
in

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\*Normal capacity schedule: Battleships would carry up to £5  
million, Cruisers £2 million, and Destroyers £1 million.

in the war it may be mentioned that at the suggestion of the Bank of Canada some ~~4~~24 million sovereigns were despatched to New York and melted there between June and August 1940.

The details of the dispersal of the Ottawa gold stock need not be followed here. It was of course mainly sold for U.S.A. and Canadian dollars; though some was sold to other Central Banks (especially to the Swiss against francs) and to the Bank of London and South America. One transaction may perhaps be mentioned. At the end of 1942, Canada's contribution to the U.K. having been exhausted, the Bank of England, pending the completion of governmental discussions, sold the Bank of Canada about £5 million gold. Subsequently this deal was reversed, the British and Canadian Governments having agreed that between December 1942 and February 1943 a total of U.S. \$150 million gold should be sold to Canada.

New York

P.T.O.

New York (1938-1944)

During the war and in the previous year or more during which war was feared, it was not regarded as altogether satisfactory to hold gold in New York, notwithstanding that U.S.dollars would obviously have to be obtained by its sale. It was quite unnecessary to hold gold there as Ottawa was available and the gold could easily be transported as required from Canada to the States. It was naturally preferable to hold gold in one of the Dominions rather than in a country outside the Empire whose entry into a war was uncertain, and there was always the feeling that gold in New York might not be freely exportable or might conceivably be attached if the old War Debt questions came up; though these considerations would not have had much weight if there had been any real convenience or advantage in holding gold in the U.S.A.

In the Autumn of 1938, the period of the Munich crisis, there were 25 shipments (August-December) from London to New York; these raised about \$300 million; and a further £15 million<sup>4</sup> from Paris in six shipments. The first seven of the London shipments were insured against war risks, subsequent shipments being covered against marine risk only.

Further transfers from London took place in the Spring of 1939, and one from Brussels; and £10 million\* was sent off by the "Queen Mary" at the end of August. There were seven other shipments about the same time aggregating nearly £20 million. After this there were no further shipments until 1940 except of Central Bank set-aside gold, of which some went in each of the first four months of the war.

In 1940 shipments of Treasury gold from London to New York ceased after August. Small amounts belonging to Central Banks, however, continued to be shipped up to November and in the following January.

As

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\*Of this sum about £3 million (the limit of the Bank's open cover) was insured against marine risks.

As with the Ottawa gold the New York holdings were rapidly exhausted through the necessary acquisition of Dollars, and on the day before the declaration of war only £1 million of gold was held in New York. Between then and the Lend-Lease Act of March 1941 some £81 million were shipped from London to New York by liner, and about £67½ million from Cape Town, by U.S. naval vessels: about £10 million of Central Bank set-aside gold also were transported, by liner.

At the end of December 1943, the situation having so materially changed through the operations of Lend-Lease, the Bank began to earmark gold in New York in exchange for dollars, and to ship it to London; by the middle of March 1944 nearly £50 million had been earmarked. The Treasury then agreed to a further £50 million and in the middle of June raised the total to £150 million. Shipment arrangements in January 1944 were to despatch not more than £5 million in any one convoy, £½ million on fast convoy vessels, £¼ million on others. Specially escorted troopers, etc., might carry £2 million each, with a limit of £6 million, and unescorted ships £¼ million each. £2 million could be shipped, however, on the "Queen Mary". Towards the end of the month the Admiralty advised against shipping gold by ordinary trade convoys as larger ships were then becoming available.

On 27th January 1944 gold valued at about £240,000 was lost in the "Empire Manor" which collided with a U.S. ship, caught fire and sank 200 miles south of St. John's, Newfoundland. Under the "Knock-for-Knock" Agreement neither side could claim for negligent navigation, and on 22nd March the loss was charged to the Exchange Equalisation Account. The Treasury became a little hesitant as to the policy of moving gold from New York to London, but the Bank pointed out that increased commitments had been undertaken to ship gold to India and the Middle East for sale there, and that there were potential demands in connection with possible arrangements with Neutrals. In the event some £166 million of Treasury gold had reached this country from New York by the end of 1944. Negotiations with the U.S.A. concerning the loss of the "Empire Manor" are referred to under "Sales in the Middle East".

In October the Treasury agreed to the earmarking of a further £50 million, making £200 million in all since the previous December. But on 1st November earmarking was discontinued as it was considered that our dollar balances had ~~not~~ been reduced to what might be regarded as a comfortable level. On the 22nd June 1945, when dollar balances in New York were about \$630 million, the question of further earmarking of gold was again raised, and once more, a month later, when they had risen to \$663 million, but no action was taken. By the end of 1945 our New York balance was under \$450 million.

South Africa

South Africa

At the outbreak of war about £39 million of H.M. Treasury gold was held in South Africa, and in November the Admiralty suggested that shipments to America should be made by utilising the Blue Funnel and Shaw Savill and Albion lines from Cape Town to Sydney, and thence to Vancouver by the Union Steamship Company of New Zealand. Shipments accordingly began about the end of the month, the Shaw Savill line being employed, £1 to £2 million being placed on each ship. Two or three other lines were employed in January 1940. The gold was not insured but the Admiralty were advised of sailings.

By the third week in February nearly £9 million was in or on its way to Sydney, but the rate of transfer thence was slower, so that stocks accumulated. In May it was estimated that £70 million could be shipped from The Cape to Sydney in a year, but less than half of this would have reached Vancouver. It was then suggested that in addition to the lines already chiefly employed, the American Matson line should be used, there being two ships of 19,000 tons available; but nothing was done. By August £15½ million had accumulated in Sydney and a further £7 million was on its way, while re-shipments were at the rate of £2 million a month only. The Commonwealth Bank now proposed using the Matson line and the Bank agreed, at the same time reducing shipments from The Cape. The two Matson line vessels took £2 million each and delivered to the Federal Reserve Bank, San Francisco. This improved the position a little.

Meanwhile the only loss of gold on this route occurred. The R.M.S. "Niagara", of some 13,400 tons, sailed from Auckland, on 18th June carrying 295 boxes of gold valued at about £2,500,000, which had been stowed at Sydney and was going to the U.S.A. "Niagara" was sunk by a mine in the Pacific early in the morning of the 19th, 29 miles from land. There were 148 passengers and a crew of 203. No lives were lost, and £2,379,000 was eventually recovered.\*

P.T.O.

\*The Bank of England arranged for salvage. The "Claymore", an old coaster of 200 tons belonging to the New Zealand Government, was employed. She started on December 1940 to locate the wreck in an area of 4 square miles strewn with mines. The "Niagara" was located on 2nd February 1941 lying in mud at an angle of 70 degrees, at a depth of 438 feet. No previous attempt had been made at such a depth, though the "Egypt" lay nearly as deep in 396 feet of water. It took six years to salvage the "Egypt's" gold and the cost was £200,000. 94% of the "Niagara's" gold was recovered in 11 months and 3 weeks at small cost. Salvage ended on 7th December 1941, the day of the attack on Pearl Harbour. The work was much interrupted by storms and the actual salvaging was done in 24 days. A full account is given in "Gold From The Sea" by James R. Taylor.

In October gold was being used up in North America at a ~~monthly~~ monthly rate of £50 million, while South African gold was arriving there in small quantities only. £42 million was held in South Africa and was increasing at the rate of £10 million a month. The question of shipping from the Cape to New York by the U.S. Robin line was raised. The Bank, however, did not wish gold to be carried direct from South Africa to the U.S.A. by merchant vessels, which might form a post-war precedent.

In December gold shipments from South Africa were stopped as a German raider was said to be in the India Ocean, and gold in North America dropped to under £18 million (10th December). The Treasury urged Admiralty intervention as they had mentioned the possibility of transporting £5 million a month by naval vessel or fast troop ship. The Bank did not approve of the use of troop ships, whether escorted or not. The Admiralty stated that the journey by H.M. ship might be lengthy, involving one or two transshipments, and shortly afterwards themselves referred to the facilities of the Robin and another American line. These were again rejected.

In December 1940 and January 1941, however, the Treasury had taken over about £18 million customers' gold in Ottawa in exchange for the same amount in South Africa, and in January the first of two shipments to New York by U.S. naval vessels took place and disposed of more than £34 million. President Roosevelt, on being informed of the exhaustion of our immediately available gold and dollar resources in North America, had decided to send the U.S. cruiser "Louisville". The shipment was to be kept secret in the U.S.A. The gold became the property of the U.S. Government on delivery to the cruiser, but risk of loss remained with the U.K. Government until the gold reached the U.S. Assay Office. In April 1941 there followed a second consignment. (£33 millions, on similar conditions) by U.S. cruiser "Vincennes".

For these reasons, or because of the tendency for gold to accumulate in Sydney, liner shipments from South Africa to Australia were not resumed. ~~In mid-March 1941 some £9.7 million~~

~~was held in Sydney, a figure unchanged at the end of 1944.~~

At the beginning of March 1941 the Admiralty were asked whether gold could be shipped in H.M. naval vessels from the Cape. The reply was that opportunities were rare for shipping to New York, and only occasionally available for London.

In April £25,200,000 gold in Durban was handed over to the Belgians in exchange for the same amount in Ottawa (Anglo-Belgian Agreement of 4th March 1941).

These measures solved the difficulty for the time being, but by October 1941 the question of how to get gold out of South Africa was again being discussed. Although the route to Australia was considered safe there was apparently little prospect of moving it thence to North America, and the political situation in the Far East was becoming uncertain. The Admiralty thought further shipments by U.S. naval vessels would be the best solution. As regards the use of U.S. merchant vessels there was some division of opinion within the Treasury and some support for their use from the Admiralty, but the Bank maintained their objections.

Shipment via London to Canada involved a double risk from U-boats. The need for gold in North America, however, was not <sup>time</sup> at the <sup>time</sup> pressing and the Bank were content to hold gold in London. It was agreed that if any naval vessels sailed from Cape Town to Halifax or New York they should be employed, but in fact there do not appear to have been any such opportunities. Eventually, in November, the South African Reserve Bank were given standing orders to forward by King's ships amounts varying from £5 million by capital ship to £1 million by destroyer, and a fairly regular flow of gold to London ensued up to September 1943, by which time £79 million had been received. After this date no opportunity for naval shipments from South Africa occurred until January 1945, and the Bank did not care to use troopers probably unescorted and for which freight might have to be paid. Accordingly, at the end of 1944, more than £200 million was piled up in South Africa.

Meanwhile, shipments had been taking place from the U.S.A. to London, where nearly £110 million had accumulated, and the position was likely to improve so long as earmarking against dollars in New York continued.

Owing to the accumulation of gold in South Africa it was found necessary to extend the number of branches of the Reserve Bank at which it might be held. These had originally been Cape Town and Durban, but in November 1940 Pretoria and Johannesburg were added and in August 1943 Port Elizabeth. (See also under Gold Purchases).

Bombay

Bombay

Bombay

Under arrangements first made in the Autumn of 1938 purchases of gold were being made through the Reserve Bank of India at prices fixed by the Bank of England, and this process continued from time to time during the war. The amount held in Bombay at the beginning of the war was comparatively small, £12.7 million, and it was then decided to transfer gold to North America. Between November 1939 and July 1940 about a dozen shipments were made, ~~the~~ ~~gold~~ the first two or three being delivered to Ottawa, and the rest to the Federal Reserve Bank, San Francisco. Shipments were made via Hong Kong about twice a month, though occasionally it was necessary to suspend them as the gold accumulated in Hong Kong, where it had to be trans-shipped more quickly than it could be carried on to Vancouver. P. & O. ships were employed from Bombay to Hong Kong, and Canadian Pacific or Blue Funnel liner vessels from there to Vancouver. The whole journey took about a month. The shipments were not insured, and about £1 million was placed on each vessel. There was no naval escort for these Pacific shipments, but the Navy was advised of sailings on each occasion. By July 1940 nearly all the stock in Bombay had been shipped, and during the rest of that year and in 1941 and 1942 practically no gold was acquired.

In November 1939 the Reserve Bank had offered to exchange ~~their~~ <sup>its</sup> gold in ~~London~~ <sup>Bombay</sup> for the Bank's gold in London, or to sell gold for dollars. The latter proposal was made on account of shipping difficulties, but both offers were then declined, the Bank being in no hurry to get the gold to North America and London gold presenting no attractions.

In 1943 gold was once more accumulated in Bombay for sale in India, mostly by shipment from London. (See "Sales in India").

The same proposal was again made in June 1940, and was this time accepted, the Treasury taking over about £4½ million Indian gold in London and releasing its equivalent to the Reserve Bank in Bombay (see "Gold Purchases" Appendix...)

Buenos Aires

Buenos Aires

In June 1938 the Bank of England had provided the Argentine Central Bank with about £1 million sterling against gold earmarked in Buenos Aires (on favourable terms as regards the rate charged for war risk insurance). The Argentines were glad to economise shipments and the Bank thought it might be well to disperse some gold about the world in the uncertain state of international affairs.

After Munich some of the holding, never large, was shipped to New York. A balance of £1,841,000 (at 168<sup>s</sup>/- per fine ounce) remained. During the war the Bank would have preferred to have this gold elsewhere; however, in October 1943 an offer of gold in New York against the gold in Buenos Aires was refused as it was thought that <sup>the</sup> exchange "would cause heartburning in Washington" (L.Powell to Cohen, H.M.T.\*. \*U.S.-Argentine relationships were seldom very cordial at this time).

The gold remained earmarked in Buenos Aires until June 1946, when at the suggestion of the Argentine Central Bank it was released to them in exchange for bars received of France.

Australasia

~~Distribution~~

Australasia

Gold shipped from South Africa to North America had to be trans-shipped in Australia, and after Japan came into the war (7th December 1941) transport across the Pacific became difficult or impossible. From then onwards therefore gold was stored with the Commonwealth Bank of Australia, first in Sydney and later, from the Spring of 1942, also at Melbourne and at Broken Hill, 700 miles inland, to which the bulk of the gold in Sydney was transferred on the advice of the Military Authorities.

The gold held in Australia represented in part South African gold, in part gold produced and purchased in Australia, and in part gold which had been held in Singapore at the Chartered and Mercantile Banks. After the outbreak of hostilities with Japan the Governor of the Straits Settlements decided to transfer this gold to Australia. The amount involved, as assayed by the Melbourne Mint, was 29,112 fine ounces.

The total of gold held in Australia grew steadily up to the end of 1943, when purchases were discontinued and, including a small amount in New Zealand, then remained unchanged at about £33 million.

The gold in New Zealand represented metal salvaged from the "Niagara", which was deposited with the Reserve Bank of New Zealand in Wellington.

(See also "Gold Purchases").

Insurance on ...

Insurance on H.M.Treasury Gold Shipments

Until September 1938 (Munich) H.M.Treasury gold shipments were covered against both marine and war risks.

From 15th September 1938 this policy was changed as a result of Lloyds giving notice to cancel all war risks policies.

From this time shipments of H.M.Treasury gold were never insured against war risks, and to this end a clause was inserted in the Bank's open cover giving them the option not to insure particular shipments provided notice was given prior to the inception of the risk.

In April 1939 a War Risks Cargo Pool was formed, and the Bank had to obtain special sanction through the Treasury to retain their option to insure or not to insure shipments against War Risks. A similar sanction was given when the War Risks Cargo Pool was taken over by the War Risks Insurance Office at the outbreak of war.

Until the outbreak of war, marine risks on H.M.Treasury shipments were covered. After that date gold shipments on behalf of the Treasury were not insured against marine or war risks. The Treasury also accepted the risk on the gold set aside for Central Banks shipped in the Summer of 1940 without specific orders from the owners.

SALES OF GOLD IN THE MIDDLE EAST AND INDIA

All countries in the Middle East suffered some degree of inflation during the war. It operated with varying degrees of intensity and met with varying degrees of resistance. The inflation was largely due to the presence of Allied troops, whose purchases inevitably influenced and distorted price and cost structures. These countries also experienced shortages of materials.

The inflation was least in Egypt, which was the richest of the countries and could best increase production. It also had a sterling debt which it was able in part to repatriate, the counterpart of domestic borrowing helping to reduce purchasing power. For political and administrative reasons most of these countries were unable to increase taxation and borrowing to any extent. In all of them, however, there was a long tradition of gold trading and the proponents of the gold policy claimed that the sale of gold would give the local population a means of hoarding preferable to the hoarding of stocks of foodstuffs and other materials. While the price of gold was almost certain to fall eventually, investors might well prefer it to land or commodities which, having risen much more than gold, would be likely to fall further too.

Suggestions that gold should be sold in the Middle East did not come from the Bank. They arose from two separate sources: on the one hand towards the end of 1942 Mr. Casey, Minister of State in the Middle East, had become much impressed by the dangers of rapid inflation in a number of Middle-Eastern countries, collapse in any one of which might, he thought, lead to an uncontrollable situation all over the area. Mr. Casey (urged by his Economic adviser, E.M.H. Lloyd) advocated sales of gold for the duration of the war and in such amounts as would reduce or steady prices, and would lead to the hoarding of gold in place of wheat and other commodities.

By April

By April 1943 his telegrams from Cairo on the subject were becoming urgent. In April, too, but with different motives, Lord Halifax from Washington was recommending the sale of some gold to India, to reduce India's sterling balances and because he had reason to fear that the U.S. Administration might object to a further increase in British gold and dollar balances, already about \$1,000 million (or \$800 million net, after deducting certain gold liabilities), and likely, it seemed, to grow at the rate of \$400 or \$500 million a year if nothing were done. India, through her Economic Adviser, had already claimed at the time of Mr. Casey's proposals that, if these were accepted, about twice as much gold as was wanted for the Middle East should be allotted to India.

Incidentally, in November and December there had also been talk about supplying gold in the form of bangles, rings and trinkets to West Africa, and possibly also to Ceylon and elsewhere, mainly to encourage the natives to produce rubber or other specified commodities. It was alleged that there was nothing much to spend wages on, and that the natives therefore had little inducement to work.

The Bank's attitude to the last-named proposal was adverse, and although the question came up from time to time during the next two years, no action was taken.

As regards the Middle East and India, in December 1942 the Bank had at first expressed opposition mainly on the ground that sales of gold would inculcate distrust of the local currency; would make it more difficult for local governments to issue internal loans; that a very large amount of gold would be required; and that gold bars were not suitable, while sovereigns were not available. On the other hand Lord Keynes had favoured sales, holding the contrary view that they would strengthen confidence in the local currency; also that they would save the Allies substantial sums, reduce sterling indebtedness and possibly lead to the use for war purposes of the Americans' inactive reserves.

By the end of December the Bank had formulated their views in more detail, and on the 28th Mr. Cobbold sent the Treasury the following memorandum:

"The

"The proposal to import gold into the Middle East for sale on local markets cannot be regarded as a single problem with the same considerations for each of the countries involved. For instance, Persia, which is outside the Sterling Area and has a comparatively undeveloped currency system, might be regarded as a fairly safe place to try out the proposal on a small scale, whereas it would be most dangerous in Egypt which is (rather precariously) in the Sterling Area and has a highly developed currency system. The other countries concerned (Syria, Palestine, etc.) come between these two extremes but the proposal has special dangers for any country inside the Sterling Area....

"The following arguments which apply in the extreme case of Egypt also apply in lesser degree to all the other Sterling Area countries concerned. It is surely clear that we cannot go behind the back of the Egyptian currency authorities. At the moment the National Bank have expressed a definite dislike of the idea and it is assumed that whatever opinion is finally formed here nothing would be done without consultation with them. It is not clear whether the Egyptian Government have been brought into the story. It is of course possible that they might be less worried about future reactions on the currency and might be attracted by the idea of more gold coming into the country, but it is not likely that they would allow us to sell our gold in Egypt at a considerable premium: if they liked the idea it seems much more probable that they would want to press us for gold at the official price and sell it themselves at a premium, which would naturally be unattractive to us.

"It would be impossible to conceal market intervention from informed observers even if the authorities enjoy the full support of the market. Continuous intervention in the bullion market would be spotted, studied and quickly attributed to H.M.G.

"Two possible outcomes are apparently envisaged: either a small amount of gold will bring the premium down to nearly the official price or the demand for gold will increase and we shall provide considerable amounts at a premium. If the first alternative proves right and we then come out of the market, no great harm is done and  
not

not much good either. But it surely cannot seriously be argued that the introduction and popularisation on a large scale of an alternative means of payment (known to be more acceptable in times of stress than local currency) at the same time as inflation of the local currency is proceeding is not a potential danger to the currency.

"Attempts to estimate the demand seem of little value. Although experience in similar fields suggests that supply creates demand, so long as the war continues to go well and the internal position in Egypt looks fairly bright the demand for gold may be small; but if war news or the internal situation in Egypt were to take a turn for the worse then sterling and the piastre would look less good and the demand for gold would increase. It is at that moment that we should be faced with a dilemma: should we allow the premium on gold to increase again (it would of course by then be known that we had been in the market and were coming out of it) or follow the demand and try to break the speculative movement which, if experience is any guide, would follow? At this point the size of our resources must become the overriding consideration.

"Any extensive use of gold as a means of payment or any extensive market in gold at varying prices would strike at the roots of the policy hitherto pursued throughout the Sterling Area which has been to maintain steady rates throughout the Area and to avoid raising any question of the value of sterling in terms of gold. In other words, an expedient seized upon as a temporary palliative in peculiar local conditions, would jeopardise something much bigger, namely the absolutely essential faith in legal tender paper currencies, and sterling currencies in particular. Moreover, if, as is surely fundamental in our whole system, free transfer throughout the Sterling Area is to be maintained, how can we make gold available in one particular area? The demand on a large gold market in Egypt, fed officially only just above the official price, would surely be augmented by demands from other parts of the area where gold has been requisitioned.

If

"If we were to unload any considerable amounts of gold on private holders in Egypt it is inconceivable that official holders would not be pressed to try to get gold for their sterling balances as well. It is also inconceivable that any considerable movement on these lines in Egypt would not acutely raise similar questions in India. Nor could reactions on China and other countries be disregarded.

"An experiment in Egypt or one of the neighbouring Sterling Area countries might produce some advantages in the early stages (although the National Bank of Egypt do not think so) but only at the cost of far greater disadvantages in the early future.

"If we once start with a policy on these lines we shall either have to reverse policy at a difficult moment or else feed the Middle East with gold as long as the war lasts. For the latter course our gold reserves are quite inadequate.

"The proposal also runs counter to the general line of policy hitherto adopted, that the Governments of the countries concerned must themselves take anti-inflationary measures. To provide gold would actually hinder the principal remedy suggested, increased internal borrowing, and would doubtless encourage the local Governments to assume that we were relieving them of a most unpleasant task."

The Treasury (29.12.42) expressed general agreement with this memorandum.

From the beginning the Government of India had been averse from instituting gold sales in India, though claiming that for political reasons they would have to take a share in any gold so used. The Bank of England now pressed the Treasury to make it quite clear to Mr. Casey that the objections to his programme did not come solely from India, as it was feared he might think; and on 21st March a telegram, partly drafted by the Bank, was despatched to him, stating that there should be no sales of gold in Persia beyond an amount of £100,000 (which had already been authorised) until the final views of the U.S.A. (not yet officially approached) and India were known.

The telegram added that in addition to the danger of  
repercussions

repercussions in India, some or all of the Governments concerned might refuse to sell their local currencies against sterling. Moreover, sales of gold might discredit the local currencies and gold alone become acceptable as a medium of exchange. The U.S. Government was disposed to agree with this view. The small sales in Persia had been permitted only because it was not in the Sterling Area and had gold of its own which could be sold. As an anti-inflation measure the Treasury thought the sale of gold would be of very limited assistance. A large amount of purchasing power was received as wages which could not be locked up in gold; the Middle East and India could absorb enormous quantities. Finally, if sales should be resorted to, the U.S.A. should share in them and in the profits. All this accorded with the Bank's views, but the telegram omitted a reference to the probable South African objections, which the Bank had wished to include.

After various urgent telegrams from Cairo had arrived, early in April, a Treasury memorandum (9.4.43) summed up the arguments against gold sales in a manner which the Bank doubtless approved, from which the following are extracts:

".....We felt and still feel very doubtful whether the sale of gold on a relatively small scale can do much good. We cannot be sure whether the people who buy gold would otherwise be buying wheat to hoard: they might just as well be buying gold instead of holding local currency. - Nor can we be sure that those who buy gold will hold on to it permanently as an investment. It may become a medium of buying and selling, in which case the gold which we put into the country will add to purchasing power and inflation just as much as the paper currency which we have printed.

.....

Whatever may be the merits or demerits of selling gold in the Middle East, I cannot believe that it is right to adopt this policy if it involves converting part of India's sterling balances into gold. It surely could not be long before Indian politicians demanded that the whole of the sterling should be turned into gold, and this would provoke similar demands not only from Egypt and Middle East

East countries but also perhaps from Portugal and Latin American countries.

.....

Probably the Americans would be quite willing to cover their own expenditure in the Middle East in gold. But they could not cover our expenditure also, which is much greater, without special legislation; nor could they without special legislation supply gold to satisfy the Government of India. Prima facie it seems unlikely that they would be prepared to put such legislation before Congress and they would surely take the view that as India is in the Sterling Area it is up to us to make the arrangements by which we get the rupees which we require. Also, on political grounds, it does not seem desirable that India and the Middle East should look to the United States to provide the gold to cover British expenditure....."

On 14th April the Chancellor thought it well to ascertain the opinion of the British Ambassador as to an approach to the U.S. Government on the lines suggested by the Minister of State. At the same time he telegraphed to Cairo to say that unless there were a favourable reply from the U.S.A. - which he thought unlikely - he could not agree to sales of gold in Sterling Area countries. Lord Halifax wanted to get a clearer view as to the approach desired before he could give an opinion. The Chancellor replied that he had no idea as to how much gold might be needed for the Middle East or for India and Egypt.

If gold were sold in the Middle East until the price came down to £12 an ounce and were pegged at that price, there was a possibility that all holders of notes would want to turn them into gold to protect themselves against the chance of a future depreciation of sterling in terms of gold. In India there was the risk of a demand that all India's sterling balances, present and future, should be converted into gold. Even if the U.S.A. were ready to participate they could only justify their attitude to Congress by stressing the distrust of sterling in India, which would be open to obvious objection. The Chancellor admitted that he did not see how a proposal could then be made to the Americans with any hope of success

success. Lord Halifax consequently made no move.

Meanwhile in May the position had been complicated by a suggestion made by Sir Henry Strakosch to Lord Halifax and the India Office that the U.S.A. should be asked to lend India £100 million gold for her to sell. About this time, as the price of gold in India had risen considerably, the Indian Government were converted to the idea of selling gold. The Strakosch proposal was entirely unacceptable in London, since the obligation to return gold to the U.S. after the war was one which would in fact fall upon the U.K., which was responsible for the foreign liabilities of the Sterling Area, and not on India.

At a meeting at the Treasury on 28th May the Bank reiterated ~~stated~~ their objections, especially that they did not see how such an outflow once started could be stopped; that they feared the possible implications of such a piecemeal approach on a gold policy; and that the South Africans were likely to object. The meeting decided to urge the Chancellor to oppose the scheme. But it was expected that Mr. Casey would take the question to the War Cabinet, if necessary.

On 29th May the Bank were hoping that it would be possible "to have one more try to stiffen the Chancellor's back.....The Chancellor would be well advised not to agree unless he is formally overruled by the War Cabinet."

The matter does not appear to have been dealt with by the Cabinet. According to Mr. Bolton, who was present, Mr. Casey (in London at the time) told the Treasury that he could not be responsible for law and order in the Middle East unless gold were sold: and the Treasury thereupon retreated from their position and decided only to limit the amount of such sales. Their brief to the Chancellor (31st May) stressed the fact that inflation in the Middle East was causing a steady rise in the cost of the war, which fell mainly on the U.K. They proposed that initially up to 375,000 ounces should be sold in Persia, Iraq, Syria and Palestine in such proportions as the Minister of State might determine, the result of the experiment to be reviewed in three months. Mr. Casey should not approach the Egyptian Government; but if, as a result

result of the sales in the adjacent countries, they expressed a strong wish to adopt a similar procedure in their country the matter would be considered. India was to be told that neither the Strakosch proposal nor their claim for double the quantity of gold sold in the Middle East were acceptable: the maximum amount of gold to be used in India would be 3 to 4 million ounces. In reaching these conclusions the Treasury said that they had in mind not only the position in the Middle East, Egypt and India, but the problem of the growth of the gold and dollar balances.

On the same date also the Bank had come to the conclusion<sup>\*</sup> that if the policy of selling were adopted -

"The least undesirable method would be to use American gold for the purpose and to work in joint account with the Americans. The American gold should be sold locally under joint Anglo-American control and the proceeds in local currency should go into the pot for local expenditure either for British or American Forces. As the gold is sold H.M.G. should pay U.S. Treasury in dollars for an agreed percentage of the gold (say 50% at the outset).

The advantages claimed for this over any other method are -

- (a) It would get the Americans directly involved in expenditure in the Middle East.
- (b) By using American gold it would be somewhat less likely to raise awkward questions from South Africa than if South African gold were sold by us at a premium: though there is bound to be a row about a second price for gold.
- (c) It would use our dollars in a way which is both direct and obvious to the Americans and would prevent accumulation of sterling liabilities to the equivalent of at least double the value of dollars spent.
- (d) If our dollar position deteriorates and the demand for gold expands we should be better placed in this than in any other way to press the Americans to go on meeting the demand for gold whilst ourselves paying for a smaller proportion.
- (e) It would mean that we were using dollars for this purpose and not gold. in spite of all that Phillips has said few people here are convinced that American critics will watch our gold stocks as eagerly as they will watch our dollar balances."

So far as participation by the U.K. was concerned the Bank probably felt that the strongest arguments were the facts that the higher prices rose in the Middle East and India the greater the expenditure of the Allied Armies would have to be, and the greater the volume of sterling debt which would be incurred by the U.K. to such

<sup>\*</sup>Memorandum (31st May) a copy of which was sent to the Treasury.

such countries. India and Egypt had already acquired enormous quantities of sterling\* - India because the U.K. was defending her against Japan. The Bank were not indifferent to Lord Halifax's attitude in April, but as it happened the U.S. Government did not take the action he feared in objecting to the rise in U.K. gold and dollar holdings.

The Treasury gave some reasons for not approaching U.S.A., and the Governor on 3rd June wrote -

"I accept with good will the decision mentioned in your letter of the 2nd that you should advise the Chancellor to go on with the proposal for the sale of gold in the bazaars of the Middle East at current prices.

I have stated our views and made my protest and suggestions but the outcome of your proposal is so uncertain that none of us feels vindictive....."

On 13th June the Chancellor cabled to the Minister of State in Cairo agreeing to the sale of up to 375,000 ounces in Middle East countries other than Egypt, leaving it to him to apportion the amounts to be sold in the different markets. If the Egyptian Government pressed another 375,000 ounces might be made available for sale in Egypt. After three months the policy would be reconsidered and if results were successful more gold would be supplied. Sales should be suspended when the price came down to £12 an ounce. They would probably inform <sup>the</sup> U.S.A. but thought that except in Egypt and Persia the Americans had no considerable expenses to defray and that they were unlikely to cooperate. India was being informed that the U.K. <sup>was</sup> ~~were~~ willing to cover a part of its military expenditure by selling gold on the market.

A parallel cable to Lord Halifax suggested that the U.S. Treasury should probably not be pressed to take similar action, but that there would be many advantages in all the sales being made by the U.S., the cost being shared, say, half and half; the local currency proceeds should be divided according to the two countries' respective

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* India	£448 million on 30.3.1943	£550 million on 30.6.1943
Egypt and Sudan	£200 do.	£230 do. do.

(Quarterly Reports on U.K. Sterling liabilities etc;

Statistics Office)

respective needs. If some of the U.K.'s dollars could be turned into gold, and all the gold shipped by the U.S. Government direct to India and there sold on the market, this "might do something to avoid complaints by the South African Government\* that we are buying gold from them at 168s. and selling it at a much higher price". It was proposed to limit U.K. sales in India, in the first three months, to 1½ million ounces,\*\* but the U.S. Treasury should not yet be informed of this.

The Governor's comment on the telegrams was: "Very unsatisfactory. These go beyond anything I had understood". His letter of 3rd June was intended to exclude Egypt and India. The Treasury were informed orally of the Governor's views.

The Bank always felt that for practical reasons South African gold would have to be used in India and that South Africa should be consulted without delay. As regards the whole programme it would be quite impossible to avoid disparities between the prices of gold in various centres, and it would be well to employ an experienced London bullion dealer, or banks with branches in the East. They disliked the mention of the minimum price of £12 an ounce, as suggesting that this was H.M.C.'s real valuation of sterling (L. to Treasury 7.6.43). They also thought (but apparently did not mention to the Treasury) that South Africa should perhaps be offered a share in the profits. The telegrams went off without mention of the price of £12 an ounce, and the Treasury agreed to inform the head of the South African Treasury, who happened to be in London and would report to his Minister.

On 17th June the Bank sent the Treasury a further memorandum, which discussed unfavourably the Strakosch proposals...

"None of these measures would be more than palliatives and it is doubtful whether they would have any adequate effect" and continued-  
"....we should

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\*In September, when the matter was put to them, the South African Government were raising no objections to the sales.

\*\*Subsequently reduced to 750,000 ounces.

"..... we should now concentrate on seeing how the best value for the war effort can be got out of gold sales without an impossible burden on our small resources.

It is suggested that we should do everything possible to avoid three things -

- (a) Exhausting our own gold reserves to an extent which would leave us intolerably weak at the end of the war.
- (b) Undertaking any commitment to U.S.A. which would give them a claim on us for gold after the war.
- (c) Paying directly for commodities in gold as opposed to acquiring rupees against sales of gold on the market.

This means that we must approach the Americans for whole-hearted co-operation and ask them to provide free of charge the greater part of the gold required for sale. The best approach would seem to be on the highest level suggesting that American gold should be used, that we should pay in dollars for as much as we can without unduly depleting our reserves and that the rupee proceeds should go into the pot for joint expenditure whether British or American. The percentage for which we pay could then be adjusted from time to time in the light of our gold and dollar holdings.

If we could persuade the Americans to come in on an arrangement of this sort it might be possible to indicate to Government of India a figure of gold which we intended jointly to allocate for this purpose over the next period. We should couple this with insistence that India should during that period make no request for conversion of the balance of the sterling holdings (after adjustment perhaps by the pensions scheme already agreed in principle).

As a matter of tactics it seems most desirable to bring the Americans into this from the outset. If we start gold sales without them it will be difficult later on to make it a joint undertaking, which is the only satisfactory solution, and we shall see ourselves faced with the alternatives of discontinuing gold sales or making serious inroads on our reserves. Emphasis on India's position as a base for the Pacific war would seem to offer a good line of approach to the Americans."

By 23rd June the bullion equivalent of 100,000 sovereigns had arrived <sup>m</sup> Teheran and two banks were instructed by the Minister of State to sell at a rate of 750 rials per sovereign. The idea was to begin by undercutting the bazaar market and if demand were vigorous to raise the price as far as the market would stand. Cairo desired a co-ordinated price for gold throughout the Middle East - which the Bank thought impossible and dangerous. The bazaars should be kept in doubt as to the seller's intentions, and fluctuating prices would help. The Minister of State's advisers, however, were concerned lest the gold they sold should pass from one country to another where the price was higher, and in fact much smuggling took place.

Before the end of June some tentative approaches had been made to the U.S. Treasury; South Africa had said that they were not interested

interested so long as sales were in the experimental stage: and Cairo was asking for a technical adviser to direct distribution and sales.

Meetings at the Treasury at the end of June decided that there should be no publicity, and that sales should be made over the counter by the Ottoman Bank, Barclays (D.C. & O.) and the Eastern Bank; in Syria by the Banque de Syrie et du Liban (as agent of the Ottoman Bank). The reserves of gold should be held at the National Bank of Egypt and the Reserve Bank of India, for account of the Bank of England. There should be a small organizing committee in Cairo assisted by a London Expert.<sup>x</sup> Sovereigns should first be sold but bars should be sent from Durban to Cairo to be exchanged with the National Bank against sovereigns. Sales in Bombay should start at about the same time. No great emphasis should be placed upon equalising gold prices in the Middle East. Gold should not be sold by tender. Gold coin would doubtless sell more readily than bars, but there were strong objections to arranging to mint pahlevis in Persia<sup>f</sup> (or Turkish lira in Turkey).

The Pretoria Mint was prepared to mint 1 ounce discs: but objections were raised because they might look like a new gold currency and circulate from hand to hand.

Early in July the Bank of England made the necessary arrangements with the banks<sup>xx</sup> who were to act as agents in selling gold. Mr. Kimpton expressed the view that it would be a mistake to offer sovereigns alone: the commodity aspect would be emphasised by offering small bars also. The Governor was also anxious to conserve the supply of sovereigns.

South Africa had been asked to make small bars and offered to do so, but meanwhile permission from the Chancellor had been obtained

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<sup>x</sup>The Bank selected an expert from Rothschilds (Mr. A. E. Kimpton) to act as "Adviser" to the Minister of State. He found his assistants competent and returned to London before the end of 1943.

<sup>f</sup>Subsequently, however, gold bars were supplied from South Africa for this purpose. But the coins were to be sold in Persia only.

<sup>xx</sup>British banks were paid out-of-pocket expenses and overheads.

obtained for their production in this country. Out of the 375,000 ounces to be sold in the Middle East (outside Egypt) in the first three months, two-thirds was to be in the form of small bars, the rest sovereigns. Orders were given to Rothschilds and to Johnson Matthey & Co. for each to produce 5 and 10 tola bars, and 5 oz. bars, all 996 fine.<sup>✕</sup> The name of the manufacturer was to be stamped on each bar - and it was for this reason that a second firm was employed. To entrust Rothschilds alone with the order (as at first proposed) might have given them an undue advertisement, and a Jewish name might not have been universally popular in the Middle East.

As already indicated, the Americans had been kept informed, in a general way, concerning the British programme. On 13th July Sir F. Phillips told the U.S. Treasury of the intention to sell gold in India and probably Egypt, and received a comment that the British action had "forced" them to follow suit, otherwise the U.S. Treasury would be criticised in Congress for obtaining currencies at official rates while the U.K. were obtaining them at a much more favourable rate by selling gold. Two days later H.M. Treasury received an application from the American Embassy in London to participate on an equal basis with Britain in the sale of the gold in the Middle East and Egypt. The Bank were anxious that their safeguards<sup>✕✕</sup> should be introduced into any arrangements made. A fixed quota of 50% for each area would have meant that if the proceeds could not all be used in the same area they would be transferred, which would be awkward for the U.K. who were maintaining pre-war fixed exchange rates. If the proceeds were retransferred to the U.S.A. via London the dollar/sterling rate would work out for the U.S. Treasury at less than \$2 to the £.

The

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<sup>✕</sup>at costs for manufacture which decreased as further orders were placed: e.g. a 10 tola bar cost 4/- on the first order (10,000 bars) but only 1/6d. on the last (2,500).

<sup>✕✕</sup>Memorandum of 17th June.

The eventual formula (not, perhaps, a model of clarity) agreed with the Americans was:

"..... The average rate at which sales are effected in each country will be calculated monthly and the U.S. Treasury credited with the amount of local currency or currencies actually required by the U.S. authorities for military expenditure in each of the Middle East country or countries concerned up to a total figure not exceeding the proceeds, calculated at the rate obtained in each several country, of 50% of the total number of ounces of gold (or of sovereigns) sold in the whole area."

Gold equivalent to the Americans' share was set aside for the U.K. at the Federal Reserve Bank, New York. But the arrangement for half-and-half shares was not carried out.

*in Small Type*

→ PROGRESS OF THE SALES

We have at length arrived at the point at which sales began. Between them and their discontinuance (in India - July, 1945) their progress was fraught with innumerable difficulties - American and South African participation, price vagaries, apprehensions (perhaps not always well founded) lest surpluses of local currencies should be realised, and probably left for the U.K. to convert - all of which required continuous discussion and correspondence, and often delicate handling: a long story, in fact, of which the following endeavour to give an account of the more important developments.

Middle East

From the beginning difficulties arose over sovereigns, which had at first to be sold since enough bars were not available, and for some time the proportion was one-third sovereigns to two-thirds bars. By 1st October, 1943, the Foreign Office was urging the Minister of State not to sell sovereigns except for "special purposes" and to meet the need of pilgrims.

Pilgrims going to Mecca from Suez or Suakin were allowed 10 sovereigns each; but wealthier pilgrims who wanted more could buy the balance if poorer pilgrims did not take their full quota. In 1943, pilgrims bought nearly 109,000 sovereigns (£461,000); but in 1944 they were not allowed sovereigns, which it was thought they could acquire for themselves. Sovereigns, with a minimum price (except in Persia) of £4:10: -, could always command a premium over bars

Sales

Sales began in Persia on 26th June, 1943; in the rest of the Middle East (apart from Egypt) in early August; in India on 24th August; in Egypt on 22nd November.

Prices had fallen by about 30% by the 19th August (Mussolini resigned on 25th July), and it was soon clear that the main influence on the price of gold was the war news.

At first an endeavour was made to keep the sales secret; but owing to a series of leakages and the difficulty of keeping arrivals in the various countries secret, they became common knowledge.

On 1st August the Treasury informed Lord Halifax that steps would be taken to keep the U.S. informed. They admitted that the decision to sell gold in the Middle East had in fact been taken without consulting the Americans; on the other hand the U.S.A. had decided to provide gold for sales in China without consulting the British.

At the end of September Mr. Casey was of the opinion that the policy had been most successful, and was pressing for more sales; on 23rd October he claimed that the sales had steadied prices, though he admitted that there were other factors which had helped to slow up inflation. The sales had, he thought, helped to maintain confidence in paper currencies, and there had been no ill effects.

Up to this date nearly £4 million of local currencies had been acquired. Sales in Persia before 1st August had amounted to little more than 5,500 ounces; from 1st August to 30th October 225,000 ounces were sold in the Middle East; in the following three months (to end Jan. 1944) 313,000 ounces; and in February-April 378,000 ounces. Meanwhile the £12 per ounce limit had been removed: a minimum price for bars had been fixed at £16 per ounce, and sovereigns were not generally sold under £4:10: - each.

By April, 1944, the Treasury, nervous at the rate of sales (then about £25 million a year at the par rate for gold) and an unexpected and substantial cut in Canadian Mutual Aid, proposed to warn Mr. Casey that sales could not continue much longer. A little later, however, they weakened and in a letter (21st April) the

Bank

"~~the~~ realised that it was not easy to discontinue sales but the sooner this dangerous leak from our inadequate resources can be stopped the happier we shall be."

In May a suggestion to raise prices in order to discourage sales was objected to because of the probability that it would raise the cost of living in Syria, where prices for the harvest had already been fixed. But not much later the Minister of State decided on a suspension of sales from 19th June, intended at the time to be temporary. In fact it became permanent, except in Persia where sales continued until 16th January, 1945. The total sold (to the nearest hundred ounces) was as follows:-

	<u>Fine oz.</u>
Syria.. .. .	277,800
Egypt.. .. .	229,900
Iraq .. .. .	160,200
Palestine .. .. .	137,500
Trans-Jordan .. .. .	36,900
Sudan.. .. .	4,800
	<hr/>
Total to 19th June, 1944	847,100
Persia .. .. .	387,500
	<hr/>
Total to 16th Jan.1945	<u>1,234,600*</u>

The sterling equivalent of the sales was £22,147,003 and the average price £18: -: 3 per ounce (official price £8: 8: -).

Prices varied widely both from country to country and in the same locality. There was always a premium on sovereigns, which at one time (Oct.1943) were commanding as much as £23:11: 6 per fine ounce. The price range in bars was less: up to 19th June, 1944, from £17: 6: 1 (beginning of May 1944) to £20:12: 4 (Oct.1943). The greatest amount of gold sold in a fortnight was between 10th and 23rd November 1943, 68,111 ounces; and the lowest between 13th and 26th September 1944, 697 ounces.

After the cessation of sales the market price of gold rose, but by October it had returned to about the June level. As sales

*were*

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\*including 713,800 sovereigns, 570,000 small bars up to 10 Tolas and 71,000 oz. in other bars of various sizes.

were continued only in Persia other territories obtained their supplies from that country, a practice usually advantageous to the British Government in view of the Anglo-Persian Agreement. The stability of prices was held to have justified the abandonment of the sales policy.

The files show a general consensus of opinion that in the absence of sales inflation would have been greater - a non-controversial conclusion.

In October the Americans (who apparently were not informed of the decision to stop selling until August) were hoping to dispose of their surplus of Iraq dinars (1½ million, a figure which "astonished" London, and an amount which could not be converted at the official rate)\*. The U.S. Treasury were also alarmed at the cessation of sales in Egypt, politically embarrassing to Congress, and wished to continue, even on a "token" basis.

Egypt having been all along a drain on our dollar resources, the Bank urged the Treasury to refuse to compromise in view of probable larger demands later. On a suggestion that the U.S.A. could help us (and incidentally their own exporters) by financing their military expenditure in Egypt in dollars rather than by selling gold, the U.S. Treasury withdrew their request.

#### EXPERIENCE IN VARIOUS COUNTRIES

##### Persia

Sales in Persia began about a month earlier than in the other Middle East countries and continued for seven months longer. While there was a tendency for gold to flow from one country to another notwithstanding all efforts to prevent it, the connection between Persia and Iraq was particularly close, and at first it was alleged that 75% of the sales in Bagdad crossed the border into Persia.

As already explained, it was important to maintain sales because of the Anglo-Persian Government Agreement and the American demand. On a small scale the Persian Government itself was  
selling

\* Some dinars were, in fact, taken over.

selling gold,\* in the form of coins and small bars. The Treasury and the Bank preferred to sell bars only: nevertheless sovereigns were sold, often below the minimum price (£4:10: -) for the rest of the Middle East.

At first sales were brisk and at high prices, but at the beginning of October a Persian Deputy, who had been given full particulars of the gold the British Government had brought in for sale, made the information public. He stated that the price had fallen and that he hoped it would continue to fall. The price was now lower than elsewhere in the Middle East, but sales fell off.

### Syria

The demand for gold in Syria\*\* was greater than in any other Middle Eastern country except Persia. The Syrian wheat harvest was of importance, and influenced market conditions in Palestine and Trans-Jordan, where the demand was smaller.

The Agent of the Ottoman Bank in Syria was the Bank of Syria, whose Manager had also been appointed by the National Committee in Algiers as French Treasury representative in The Levant. It was natural, therefore, that he should wish to be consulted on the gold policy. The British were quite ready to meet his wishes, but found that he was lacking in discretion, so that they could not take him fully into their confidence. He seems to have formed the opinion that the British were aiming, not so much at reducing purchasing power and bringing down prices, as at getting the maximum amount of local currency against gold for their expenses. He did not want to sell sovereigns at above £S40. His alarm seems to have been sincere that a rise in the market price of gold would lead to a rise in other commodities, wages, etc., and so undo the good anti-inflationary work already done. A letter of 13th September from the Minister of State <sup>protested</sup> ~~while protesting~~ that "our instructions from the Treasury are quite clear, viz: that the main object of these sales of gold shall be to obtain as much local currency as possible for each ounce of gold

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\*partly supplied by the U.K., the U.S.A. and other countries.

\*\*by goldsmiths for bangles, bracelets, necklaces, rings, etc.

gold expended<sup>it</sup>, also explained that the shortage of sovereigns (of which the Manager had already had warning) must inevitably raise ~~the~~ the price, at the same time assuring him that the British had no intention of forcing the price of gold up.

At home, the Chancellor was, naturally anxious to avoid any political difficulties with the French, and was always laying stress on the anti-inflation motive. Difficulties were somehow smoothed over, though at one time the dispute had reached the point where the Manager refused to carry out British instructions, and the British said that in that case they would have to stop sales.

By 30th September agreement had been reached that instead of selling rationed quantities of gold to the general public at a fixed price over the counter (which had produced queues of applicants and necessitated police protection at times) sales should be negotiated with gold dealers at or about the market price, as was done in Iraq. At the end of the first week in October, however, sovereigns were fetching £50, and it was found that commodity prices were following the gold price exactly, as the Manager of the Bank of Syria had predicted. His Bank was being accused of causing the rise in the price, but it was known that the British Treasury were behind ~~them~~<sup>it</sup>, and the prestige of the U.K. was suffering. The Minister of State decided to resume sales to the public as well as to brokers, and apparently the price was again reduced to £40.

On 20th November the sale of sovereigns, except ~~for~~<sup>to</sup> pilgrims, was stopped. When all sales were discontinued on 19th June, 1944, it was thought for a time that sales might have to be resumed in connection with the harvest, but this proved unnecessary.

### Egypt

There was less inflation in Egypt than elsewhere in the Middle East, and the demand for heavy gold jewelry was not as great as in Syria. It had been intended ~~to begin~~ to begin sales in Egypt in September, up to 375,000 ounces, in small bars and in sovereigns obtained from the National Bank of Egypt in exchange for South African bars. Sales did not begin, however, until

22nd November

22nd November, partly because small bars could not be produced in sufficient quantities at once, but chiefly owing to the infrequency and irregularity of convoys: except at the beginning air transport was not available. Another cause of the delay was the proposal to arrange for American participation.

The Egyptian Government raised no objection to sales but did not press for them; and at the end of the period during which they were made it was said that the Egyptians had never been keen and were glad of the cessation. The National Bank, too, it seemed, had been hesitant. Their Governor in February 1944 alleged that so far sales had had no effect on prices, and that there might be undesirable repercussions such as a possible breaking of the link with sterling. Rumours of the latter, however, he admitted were "popularly ascribed to the unsettling effect of a visit we had some months ago from Morgenthau and White". In November the Chancellor had told the Minister of State that it was important to convince the Egyptian Government that the policy was one of anti-inflation and not primarily in the interests of the British and American Treasuries, adding that otherwise the Egyptian Government might claim a share in the profits. He was assured that the Egyptian Government was so convinced.

The National Bank appointed the Clearing Banks in Cairo and Alexandria to sell gold. The Chancellor expressed a hope that there would be no sales of sovereigns, and the Bank instructed the National Bank to limit the amount of sovereigns available to the Minister to £500,000 (Cairo was the sole source of sovereigns with the doubtful exception of the Reserve Bank of India).

The Bank now assumed that total sales in the three months from 1st November would be restricted to 280,000 ounces, and by January it appeared that even this amount would not be disposed of for several months. The total sold up to 19th June 1944, when sales were discontinued, was 229,923 fine oz. realising £E17,988,000.

Average sales in 17 fortnightly periods were 13,525 ounces, with a maximum of 41,696 ounces between 16th and 29th February 1944. The price of bars was fairly steady (£E17: -: 4 to £E17: 8: 6).

India

India

The two aims of gold sales - the checking of inflation and the purchase, at a low price of local currencies for war needs - were only occasionally in conflict with each other, and consequently were not always very clearly distinguished in the minds of the Treasury and other Home departments, or in the Middle East and India. In India, however, the Government and the Reserve Bank naturally had but the one objective, that of reducing inflation.

In the middle of June 1943 the Treasury offered to sell 750,000 ounces of gold in India over a period of three months as an experiment, using the proceeds to defray part of the U.K.'s expenditure, in line with their policy in the Middle East. They would welcome U.S.co-operation. The Government of India agreed, but hoped it would be possible to continue the sales beyond the three months, and asked for views on publicity. The Bank were against any public statement: it would constitute a commitment difficult to withdraw from if circumstances changed, and from a selling point of view the best effects would be obtained by keeping the market guessing.

Sales were to be conducted by the Reserve Bank on instructions from the Bank of England and subject to any price limits fixed in London. India was anxious to start at once, but in the absence of supplies from outside, the Reserve Bank, could not advance gold against earmarking in London as this would become apparent ~~part~~ in their weekly statements and would give rise to suspicion and rumours.

The Indian Government wished to sell sovereigns with a view to "a rapid and widespread dissemination of the gold". The Bank naturally objected. Mr.Cobbold (L.to Treasury 6.7.43) said:

"In the case of the Middle East there has I think been some doubt whether the objective is to reduce the price of gold or to mop up as much purchasing power as possible by the sale of gold. In the case of India I have always assumed that we were only considering the first of these two objectives. If we are to attempt, by selling gold in more or less 'currency' form, to mop up purchasing power, we are surely landing ourselves with an almost limitless obligation."

He suggested selling "ordinary" bars and nothing else. The India

Office

Office pointed out to the Government of India that the objective was not the most rapid distribution of the largest possible quantity of gold, but to ensure that the limited amount available had the maximum effect, "by avoidance of any ring or corner". No gold could arrive until the middle of August; £6 million was coming from South Africa.

As in the Middle East, the predominant influence on the Bombay Bullion Market was the war news. There were, however, many subsidiary factors, and price movements occurred which the Indian Government and Reserve Bank were sometimes at a loss to explain: e.g., a big fall in the third week of July.

The Reserve Bank, in consultation with their Government, were given a comparatively free hand as to the amounts to be sold and prices. Sales could be in the form of 400 ounce bars or small bars manufactured by the Bombay Mint. If prices fell substantially the Reserve Bank should ask for further instructions.

At the end of July the British Ambassador in Washington was asked to discuss the question of sales on U.S. account (see section on ~~American participation~~, below).

On 16th August the India Office asked the Government of India whether they saw any prospect of a conflict of interests in determining selling policy. In the Treasury's view, <sup>they added,</sup> the objectives of mopping up currency and making gold not less attractive to holders than commodities could best be attained if the price of gold were not made to fluctuate violently or to be driven down to a level at which they would regard the return as inadequate.

India replied that the possibility of a conflict of interests in selling policy undoubtedly existed "since our objective would be to secure as widespread and rapid an absorption of gold for anti-inflationary purposes as possible, consistent with a reasonable selling price. Parity with other commodity prices is not a suitable criterion for this purpose since gold has never risen proportionately with other commodities". Progress so far had been satisfactory from the Treasury's point of view, and they hoped difficulties would not arise. Sales had begun on 18th August, at prices ranging from about £15 to £14:4- per ounce, and London suggested £14 as the lower limit.

In

# In mid-September the Bank felt that gold was being sold too quickly, and that there was a danger, which they pointed out to the Treasury, of trying to hold down the price of gold with resources quite inadequate to meet potential demand, both in India and the Middle East. They also referred to the possible reactions in South Africa; and warned the Reserve Bank of India that supplies would not be large in the next two months.

Towards the end of September the Reserve Bank reported that the market was in the grip of a bull movement and that occasional interference with limited resources could not hold down the price for long. This difficulty recurred from time to time, and it was sometimes thought that the price rose because the market realised that supplies were short. At the end of the month the Government of India pressed for further supplies. The Bank thought it time for India to be made to realise that the amount of gold which could be spared could not be used as an effective brake on a general market rise. The India Office informed the Indian Government (20th October) that sales would be continued on the same scale for a further three months; ~~and~~ <sup>they</sup> added that it could hardly be expected that such sales would influence the general trend of bullion prices unless the anti-inflationary campaign as a whole (in which the most important measures fell to be taken by the Indian Government) were successful. The Finance Department replied that "in spite of the upward trend in gold prices we regard these sales as having the most valuable anti-inflationary effect. At present rates they are absorbing some 80 crores of rupees a year. It would require very considerable extension of existing taxation and borrowing programmes to achieve this effect".

By the end of October shipments of gold from the U.K. were arriving in India, and the arrangement to sell at the rate of 750,000 ounces a quarter (plus 250,000 for U.S.A.) continued until the end of the year, when the Chancellor decided to increase sales to  $2\frac{1}{2}$  million ounces (in addition to the  $\frac{1}{4}$  million on U.S. account) a quarter in 1944.

By

By the end of 1943 total sales in India amounted to 955,463 fine ounces, realising £14,274,000 at an average price of £14:18: 9 per ounce.

In the late autumn of 1943 the price per tola had risen to 83 rupees, but then fell on "international developments (Burma)", and large sales took place early in 1944 at 71 rupees. The Indian Government wished a lower limit of 70 rupees to be fixed, but decision was deferred.

The question of secrecy now came up. The Government of India had refused to answer questions in the Assembly Session and the Governor of the Reserve Bank had taken the same attitude towards his Board. However, it did not seem practicable or desirable to withhold information indefinitely. The Bank agreed to an announcement, and on 5th February the India Office suggested a form of statement, omitting information as to the quantities of gold sold or to be sold, price policy, or probable duration of sales. The communication, drafted by the Treasury and the Bank, was as follows:

"It is generally known that considerable sales of gold have been made by the Reserve Bank in recent months and it has been realised that the gold was not taken from the Reserve Bank's currency reserve, which has remained constant. The sales have in fact been made, at the suggestion of the Government of India, under arrangements between the Reserve Bank and the Bank of England on account of H.M.G. and the U.S. Government, the gold having been provided by those Governments from their own resources, and the proceeds having been used by them towards their war expenditure in India. The import of this gold has thus usefully reduced the gap between India's exports and the restricted imports of other commodities which could be made available in present circumstances, and by its direct effect in absorbing surplus purchasing power, as well as its less direct influence, has materially supplemented the measures which we have been taking to counter inflation and to check the rise in commodity prices."

Shortly after this draft was sent, however, gossip began to appear in the English Press (originating with a Cape Town correspondent) and drawing attention to the price of gold in India as compared with the official price in London. So far as South Africa was concerned the Bank favoured no attempt at any counter publicity. Between 5th and 22nd February the draft reply had been used to answer questions in the Assembly and was to be used again in the Finance member's budget speech on 29th February, which contained

the

the following paragraph:

"At this stage I may mention one other important anti-inflationary measure which has attracted public attention. I refer to the sales of gold which the Reserve Bank has been conducting for the last six months. These sales afford an age-old alternative to those who do not, for one reason or the other, wish to invest in Government securities, notwithstanding the advantages of the latter over investment in gold."

Notwithstanding this, misleading information was given in the American Press which the Foreign Office hesitated to contradict in view of the danger that the profit motive might be "played up in a way which would embarrass the Government of India and perhaps the Union Government".

In the latter part of March there was a large demand for gold, mainly owing to the war situation on the Burma frontier, and the supply of gold was running short. The Government of India cabled that it would be disastrous to close down sales altogether. Supplies, however, arrived in time.

~~By 1st April, ~~the Treasury~~ as related above, the Treasury had apparently come pretty close to the view taken from the beginning by the Bank, and were already thinking of stopping sales; and though the excessive demand in India was subsiding they proposed a higher minimum price, which the Bank suggested should be Rs.78 but which the Treasury fixed at Rs.75.~~

In April, the Treasury, coming round to the view held by the Bank all along, were thinking of stopping sales and fixed the price at 75 rupees (the Bank had suggested 78) without consulting the Indian Government. The latter protested that it was their main concern to control inflation, and the Reserve Bank pointed out the unfortunate psychological effect of raising the minimum in the face of the prevailing controversy over profits. The Government replied (30th April), assuring the Indian Government that their point of view had been considered before the decision was reached, but that they regarded substantial sales below Rs.75 as undesirable: they would diminish resources available for control at higher prices, <sup>they</sup> seemed "likely to result in our falling short of our objective" and (a situation

situation arising since the decision) shipping difficulties would prevent the Reserve Bank from selling at anything like their quota rate during the next few months. They were trying to improve the situation but it only reinforced their conclusion as to raising the price.

It is clear that the Bank regarded the wavering policy of the Treasury as mainly responsible for inadequate supplies of gold for the Indian sales (Note G.L.F.B. to Governor of 2nd May 1944).

In May and June sales were small, the price more than once falling below the minimum.

On 19th June the Chancellor wrote to the Secretary of State (Mr. Amery) saying that he had reluctantly decided that sales must stop after the programme of shipments due to arrive up to 30th September, and suggested that the minimum price (except for American and South African sales) should be raised to Rs.78. This brought a protest from Mr. Amery, who wished to encourage the Indian Government to ask the U.S. for Lend-lease gold in excess of the amount required to meet their military expenditure.

At a meeting at the Treasury on 26th June to consider this reply it was agreed that it would be a mistake for India to approach the U.S.A. for Lend-Lease gold, especially as it was likely that the Americans would shortly be asked to take a greater share of joint expenditure in the East. It was also agreed that if H.M.G. did not sell for their own account it would be embarrassing, perhaps even to the Government of India, to continue sales for account of South Africa. Sales to meet American military expenditure could continue, though two arrangements on price policy might complicate the handling by the Reserve Bank. There seemed to be little point in putting up the price to Rs.78.

The Secretary of State seems to have been convinced by the Treasury. On 11th July he cabled the Governor-General that sales on U.K. account would have to be stopped: "The present moment, when sales have for other reasons been suspended, seems clearly the right time at which to put the decision into operation. It might even be possible, in the changed circumstances of to-day, to represent the

diminution

diminution of sales as a sign of strength." He assumed that sales on South African account would continue as long as sales for the U.K., not thereafter; but that the U.S. Government would go on providing some gold to cover their military expenditure. With the gold to be shipped there would be sufficient gold in India (3.2 million ounces) to continue sales on American and South African account up to the end of September. The minimum price should remain at Rs.75 both for sales on U.K. and South African account. Sales on U.S.A. account could be sold at prices within India's discretion.

In a separate telegram to the Viceroy some figures of the U.K.'s gold and dollar position were given as justification for a decision "taken most reluctantly."

The Viceroy regretted the decision, being still concerned about the inflationary position, but agreed on points of procedure.

In August the Governor of the Reserve Bank, then in London, expressed surprise that the gold price in India was so high, in view of war developments; moderate sales were then taking place at above minimum price. He expected a considerable drop at the end of the war in Europe and a still further fall when the war with Japan ended, but did not think the price would come down to parity with London for some time afterwards.

Remaining developments are concerned mainly with American participation and are recorded in the section <sup>(below)</sup> dealing with it.

Over the whole two years of sales (18th August 1943 - 14th August 1945), 5,248,058 fine ounces were sold <sup>in India</sup> on U.K. account (including 178,928 for South Africa) and 2,214,952 ounces on U.S.A. account. These disposals realised 1,025 million rupees and 410 million rupees, respectively. The sterling equivalent of the rupees realised for the U.K. was £74,187,507, and for South Africa £2,685,085. The value of U.K. sales at 172/3d. was £43,657,890, so that the E.E. account realised a profit of £30,529,617. The average price was just under £14:13:- per fine ounce.

(Notes: S.D. 35, vol. 4; of 9.10.1944, 7.11.1944 and 9.1.1947)

U.S.A.

U.S.A. Participation

The first proposal to obtain American participation in the gold sales came from Mr. Casey, and was subsequently pressed by the Bank of England. The Americans were at first hesitant, then claimed that their hands had been forced, and subsequently seemed to be pleased with the arrangement. Their needs <sup>at the time</sup> were in two countries only: mainly in Persia, and to a less extent in Egypt.

The Americans were allowed either as much local currency as they wanted or as much as could be spared, provided that in either case they did not acquire more than they needed for military expenditure. That at least was the objective; but on one or two occasions the fears of ~~the~~ <sup>the</sup> Treasury that they would be asked to take over local currency were realised. They took over some of the Iraq dinars and some Egyptian pounds on the understanding that the transactions should not form a precedent, but refused (in April 1944) to take over two million Syrian pounds.

In Persia the British appropriated the proceeds of sales up to 23rd Sept. 1943; sales thereafter were for American account, and the U.S. received all proceeds (at the average price of sales <sup>since</sup> ~~August 1943~~ <sup>August 1943</sup>) up to 3rd August 1944. In December 1943 the Americans (who needed 300 million rials a quarter) only withdrew a request for lower prices and increased sales when reminded that sales were intended to reduce inflation and not to raise currency profitably.

Early in 1944 there were, in fact, much larger sales at slightly lower prices. But in May the Americans, wishing to raise the equivalent in rials of \$4 million a month (they said they were getting \$1 million only) again pressed for lower prices. The Foreign Office replied (28th May) that, on the contrary, all future sales ought to be for U.K. account. Because of the terms of the existing Anglo-Persian payments agreement, Persia was the one country where the U.K. could actually save gold by selling it (in the market),\* a fact of which our Washington representatives were reminded. There

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\*Referring to the fact that the U.K. had to provide gold at the official price against 60% of each increase in Persian Government sterling.

There might be a case for the Americans if they paid for the transport of Lend-lease goods to Russia on Persian roads (then costing the U.K. £10 million a year).

The Americans would go no further than to offer the U.K. (end of August) 65 million out of 95 million rials awaiting disposal, but were ready in future to give the U.K. rather more than their share on a relative expenditure basis. The Foreign Office (cable, 19th Sept.) accepted a division on net military expenditure basis, from which they calculated that the Americans would get about 25% of the proceeds at that time. Sales in Persia continued, after an initial slight rise in July at very steady prices; and finally ceased on 6th Jan. 1945.

The division of proceeds for the whole period of sales was as follows:-

		<u>Million Rials</u>
Up to 23rd Sept. 1943	U.K. (War Office)	77
24th Sept. 1943-3rd Aug. 1944	U.S.A.	364
6th July 1944	U.K.	51
Aug. 1944-15th Jan. 1945	U.K.	382
Expenses, etc.		1
		—
		875
		==

Thus the U.K. share was 510 million Rials, or 58%.

Sales in Egypt began at the end of November 1943 and in the first four months the American share of the proceeds was £E.1,270,000 out of a total of £E.2,200,000; and up to the cessation of sales £E.1,578,000 out of £E.3,988,000. Sovereigns were always an anxiety, as the Americans, short of coins and forbidden to ~~mint~~ (under an Act of 1934), were always likely to ask for ~~them~~; and apart from their scarcity it was thought dangerous to encourage their circulation.

About three months after gold sales ceased in Egypt (on 16th June 1944, as elsewhere in the Middle East) the U.S.A. wished to resume. The Foreign Office, however, refused. Since the U.K. were no longer selling there was no question of refusing the Americans a similar advantage; moreover there was now a U.S. export drive to the Middle East, and dollars needed to pay

for

for the goods would have to be provided by the U.K.; or if payment were in local currencies the U.K. would be asked to convert them into dollars.

### India

It was first arranged, at the end of July 1943, that the U.S. should participate in the Indian sales on a 50:50 basis with the U.K. Almost at once the arrangement was changed to so much gold as would produce American net requirements of rupees, and by September to a fixed amount of 250,000 ounces a quarter. By the end of 1943 sales on U.S. account had amounted to 230,870 fine oz. (out of a total of 955,463).

In the spring of 1944, in the midst of so many representations from all sides, the course of American sales becomes less easy to define but can be followed, as part of the Reserve Bank's sales (i.e., on U.K., U.S. and South African account) in the earlier section "Progress of the Sales: India".

When, in July 1944, the Secretary of State for India informed the Viceroy that sales on U.K. account must cease, the latter in his reply said that sales of 250,000 ounces a quarter would no longer cover American military expenditure in India. Our Washington representatives ascertained that it would be at least Rs. 120 million a quarter, perhaps much more. On price policy the U.S. Treasury were prepared to sell down to the equivalent of £12 per ounce, if that would secure more than a proportionate increase in sales.

In September Washington was told that the Americans' new requirements would be met, and that it was unlikely that the price would have to be reduced to the £12 level in order to raise Rs. 120 million a quarter. The U.S. Treasury were asked to give assurance, and gave it, that this estimate related solely to military needs.

Now, however, the Reserve Bank suspended sales for the time being in spite of American needs. Favourable war news had resulted in the dis-hoarding of gold stocks and the price had dropped first to Rs. 70 and then to Rs. 63.

The Americans now suggested that they should send a representative to India to watch gold sales. London thought this  
might

might be embarrassing for the Reserve Bank, who knew their business well, and that a representative would not have enough to do.

When it became clear that the war would continue into 1945 prices firmed to Rs.66. The Reserve Bank wished, however, to lower the minimum to Rs.60 and to sell both on U.K. and American account, but were told that the American sales should be sufficient for their purposes at the moment.

By the third week in October the U.S. Treasury had developed a suspicion that since the U.K. had discontinued sales on their own account they had deliberately gone slow on sales for the U.S.A., and that the next step might be an indication that American sales were to be stopped also. As Congress took considerable interest in the gold selling policy this would be awkward for the U.S. Treasury, <sup>as</sup> ~~and~~ their war expenditure in India was still rising. The British protested against this imputation, which was withdrawn. The Secretary of the U.S. Treasury ~~also~~ again raised the question of a representative in Bombay, and Lord Halifax thought it might be advisable to agree. But the Governor of the Reserve Bank (supported by the Indian Government) said that if an American representative were appointed to Bombay he would prefer that the U.S.A. should make their own arrangements to sell without his Bank's intervention.\*

By the end of the month the Bank of England were ready to support larger sales on U.S. account, but the few sales recently made had depressed the price at one time to about Rs.60, which the Governor of the Reserve Bank regarded as "the unprescribed but implicit limit". The Indian Government now indicated that they might press for a resumption of sales on U.K. account to check inflation.

In November the Reserve Bank asked whether, if they sold less than sufficient for American account at one time they could make it up later, and were assured that there was no objection

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\*A compromise was made: an U.S. economist visiting Chungking paid a short visit to Bombay, and reported favourably.

objection. Soon afterwards, in the expectation of brisk Market demand, they suggested that they should be given power to sell in advance of American needs, if it would help to steady the price - a more contentious matter: it required the consent of the U.S. Treasury, always apprehensive of Congress' criticism should they be found to be holding foreign currencies for long or in large quantities. The Reserve Bank had, in fact, at one time failed to sell enough gold to meet American needs, causing the Americans to purchase rupees with dollars; and London feared that when enough gold had been disposed of to cover the gap the Americans would want their dollars back. The Government of India naturally pressed the U.K. to agree to repay the dollars, which would facilitate extra sales of gold.

The extent of a possible claim was \$16 million; but Lord Halifax reported on 14th December that no claim had been made, and that as regards anticipatory sales the U.S.A. would be prepared to sell gold up to a limit of Rs.175 million between 6th December 1944 and 5th March 1945 (although their requirements would probably be only Rs.125 million); would be ready to hold any temporary surplus of rupees; and would not ask that they should be used to finance anything but military expenditure. He added that the U.S. Treasury were nevertheless worried about what would happen to any balance they might hold at the end of the war. The programme proposed was expected by London to be a shock to the Reserve Bank, as the scale of their recent sales indicated considerably lower sales in future.

At the end of 1944 the U.S. Treasury, again fearing possible criticism by Congress of their rupee balance\* as too high, suggested that rupee payments for gold sales might be held back for a fortnight whenever our Washington Administration found it convenient, a suggestion accepted by the U.K.

The division of sales between two countries with differing price policies and the gold quotation moving above and below Rs.75 had caused a good deal of trouble. By the beginning of March it had been arranged that all sales below Rs.75 should be for U.S. account and that

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\*as revealed in their half yearly Stabilisation Fund account.

that sales at Rs.75 or above should be shared in the proportions 75% for U.K.and 25% for U.S.A.

For the quarter beginning 6th March the U.S.target was Rs.125 million, but the U.S.Treasury would not wish to force sales to cover it if harmful to the Indian economy.

Almost immediately afterwards the Americans discovered that they had greatly overestimated their future requirements. There then developed something like panic at the prospect of very large "end stocks" when military requirements should cease. They were talking of troops' holdings being as high as Rs.300 per man and thinking in terms of liquidation by resale to the U.K.over a period of five years of rupees which had been acquired for gold.

The Governor warned the Governor of the Reserve Bank (cable 11.4.1945) that the transfer of <sup>perhaps</sup> six crores of rupees to U.K.account would diminish the amount of gold to be sold on U.K.account. The Bank later authorised (cable 17.4.45) the Reserve Bank to sell on their account, at Rs.70 or above and subject to a maximum of 600,000 tolas (225,000 f.oz) a month; and to suspend further sales for the U.S.Treasury.

The Indians, with the original anti-inflationary purpose of sales in mind, had naturally become uneasy at the extreme uncertainty of American sales, and the U.S.authorities were pressed to give at least some indication of their future rupee needs. Washington replied (cable 16.5.1945) that against Rs.89 million then held by the U.S.Treasury, the only known future demand on them was Rs.16 million in June: if the U.K.felt able to take over all or part of the balance they would be grateful. (The Rs.16 million were shortly afterwards provided as a Lend-lease reimbursement).

At the end of May accumulated balances with the Reserve Bank were:

(i) U.S.Treasury Rs.89 million (in name of Federal Reserve Bank)

(ii) Bank of England " 79 " on U.S.account.

The Bank were asked, and agreed, to take over Rs.79 million <sup>of</sup> (i) on the

the understanding that Rs.10 million would be the maximum "end stocks" which they should be asked to deal with. The Rs.79 million were not then taken over, as it soon seemed probable that U.S. forces would be able to absorb a fair proportion of them.\* Both Rs.79 million and a further Rs.80 million were, however, subsequently taken over by the U.K. (See under "Expenses", below).

On 17th August the Americans (letter White to Brand) suggested that, on closure of the U.S. Treasury account the U.K. or the Indian Government (without prejudice to any later understanding) might agree to purchase unused rupees at their cost to the U.S.A. (19.3 cents). Decision on this was deferred and the question does not seem to have arisen again until April 1947.

A cable (20th Aug. 1945) from the Governor of the Reserve Bank notifying the Bank of his suspension of sales from 14th August, "in anticipation of the reaction on prices of recent momentous developments", added that the need to continue sales for anti-inflationary purposes could not yet be ruled out.

Negotiations for a final settlement of the rupee balances dragged on pending the signing of the American loan agreement. On 24th April 1946 Washington reported that the U.S. Treasury held 21 million excess rupees plus Rs.51 million arising from "straight" exchange transfers. On 17th May the Foreign Office replied that the U.K. were not prepared to discuss rupee holdings "until the Loan is agreed (and perhaps afterwards)".

A year later (23.4.1947) Washington reverted to White's ~~own~~ <sup>own</sup> request, and were informed that the U.K. had never promised to re-convert the rupees.... "in our present financial position we do not feel justified in expending dollars for the purchase suggested, even at a favourable price".

In a note to the Deputy Governor (23.5.1947) Mr. Thompson McCausland, after pointing out that the question had been re-opened in entirely changed circumstances (we were no longer receiving  
Lend-lease  
aid

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\*By Sept. 1945 they had been reduced to Rs.21 million, but had risen to Rs.75 million by Jan. 1947, an increase which could not have been due to gold sales, which ended in Aug. 1945.

aid), suggested that an inter-governmental rubber Stock-pile deal might be a better plan, offsetting H.M.G.'s receipts of rupees against Indian sterling.

At the time of writing (July 1948) the question of "end stocks" apparently remain<sup>ed</sup> unresolved.

Expenses

The settlement of expenses of shipment and sales and losses (including an explosion in Bombay Harbour and a collision in the Atlantic - together about 67,000 fine oz.) also involved long negotiations, beginning with a letter ~~Hamilton~~ (Bolton to Knoke of ~~the~~ <sup>the Federal</sup> Reserve Bank of New York: 31.3.1944) and ending two years later (Knoke to Bolton 15.2.1946). (All in FE 22.8<sup>J</sup>).

The agreement was that the U.S.Treasury should discharge its share of all expenses (except insurance) by paying 1½% of the amount of gold sold in Persia, Egypt and India (i.e., the weight at par value) crediting H.M.G. ("G." Account) in dollars at the Federal Reserve Bank; and should set aside gold for H.M.G. (No.1 Account) against the losses. Payment was made at two dates, viz:

	<u>"G." Account</u>	<u>No.1 Account</u>
26th Feb.1945 (on sales to 5th Sept.1944)	\$680,024	-
11th Feb.1946 (on sales 6th Sept. 1944 to 20th April 1945*)	624,719	(fine ounces) 20,009.585

These final claims included both losses and expenses on the Rs.79 million which the U.K.were asked in May 1945 to take over - and eventually did take over against gold in New York. The Rs.80 million were not charged expenses. (See letters McCurragh, Washington to Thomas, H.M.T. - 16.7.1945 and between Hamilton and Thomas 23 and 27.10.1945).

Statements supporting the above charges show that, over the whole period of sales to 20th April, 1945, total sales on U.S. account were:-

in Persia	159,870	fine oz.
" Egypt	110,350	do.
" India	2,215,200	do.

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\* Agreed date for end of Joint Selling Programme.

From the beginning the Bank had been anxious that the South Africans should be adequately informed about gold sales in the Middle East and India. In September 1943 the Treasury at last agreed to put the matter to the South African Government, who did not demur but said that the matter might be raised again after the experimental period of three months was over. The Bank consequently soon began to press for further consultations with South Africa as to the subsequent policy to be followed.\*

The Treasury were inclined to make light of difficulties which the Bank thought might arise. They did not, for example, believe that South Africa would expect a share in any part of the profit.

Fortunately General Smuts was in London in November, and on the 9th the Chancellor gave him a memorandum, concerned partly with the amount of gold which the U.K. wished to obtain against sterling in 1943 and 1944, but also mentioning gold sales in India and the Middle East at market prices. Continuance of these sales was desired "but on a much larger scale in India, not only<sup>as</sup> a help against inflation, but to defray part of the British Government's military expenditure in India...."

The Treasury considered "that the Union Government should be advised of this policy because the difference in the price at which the gold bars are sold and the price at which gold is bought for currency reserve might give rise to misunderstanding if the ~~the~~ policy is not explained." The memorandum went on to say that it had been provisionally agreed that the Union Government should pay £35½ million in respect of indebtedness up to the end of 1943, with subsequent payments of £500,000 a month each for the Air Force and Army, and suggested that past indebtedness should be liquidated through the use of the sterling credit "that will be created by the sale of gold in respect of the present year".

General

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\*See letters of 10th, 15th and 23rd September and 12th October, and memorandum of 13th October 1943.

General Smuts replied on the 18th November indicating that not as much gold might be forthcoming as was wished. On gold sales in India, etc., he said the Chancellor might like to know the reaction of the Finance Minister.

"He anticipates local criticism of your selling in India at a considerable profit gold for which you pay us currency price but hopes to be able to deal with that criticism. He adds, however, that the policy of gold sales to the public in India will increase the pressure on him to sell gold bars or gold certificates to the South African public from our reserves, and as this would be a valuable counter against inflation in South Africa it might be necessary for him to adopt a similar policy to that proposed by you for India. This is a point to which he is giving further attention.

"He also raises the point that the Union Government has had to take the initiative in buying a variety of Indian products like bags for grain, wool, sugar, etc., tea, groundnuts, etc. All these are bought for Government account and high prices have to be paid by the public in South Africa resulting in raising the local price level. Indian inflation thus leads to South African inflation, as we buy in India at inflated prices while receiving only fixed currency value for our gold. He therefore thinks that we should get the benefit of the higher prices for our gold to the extent of our actual payments in India and Ceylon for these requirements. You might consider meeting him on this point."

The Bank found it difficult to refuse this request, which they thought would involve about £7 million per annum. They proposed that South Africa should be paid in sterling, and the Bank and the Treasury both wished the gold to be provided by this country. It was thought that this would involve no difficulty, since it was hoped that the Americans would agree by the end of the year to provide gold against dollars. The Bank did not like the idea of sales of gold in South Africa to reduce inflation, since both resident and non-resident holders of sterling might transfer

funds

funds to South Africa to take advantage of them. Short of an <sup>497</sup> exchange barrier there would be no means of stopping such transfers.

Objections by the Dominions Office to sales of gold in India for the purchase of South African imports do not seem to have had any effect, and by March 1944 the Secretary of State was expressing the hope that the Indian Government would agree to the arrangement. It was proposed that South Africa should forward gold direct to India for sale through the Imperial Bank. The Indian Government strongly resisted direct sales, which they said would be most embarrassing, as South Africa was unpopular; they expected intensification of the criticism that India was being exploited by gold sales. With the U.K. and U.S.A. the position was quite different. Sales for South African account would "only make things easier in South Africa" - not in India. The arrangement should be one entirely between South Africa and the U.K. This proposal was agreed to in April, and the suggestion of employing the Imperial Bank, which the Bank of England objected to in any case, was simultaneously dropped.

Meanwhile at the end of March a speech in the South African Senate by the Minister of Mines stirred up complaints locally. He referred to the drop in gold production, due to a shortage of labour, and to the refusal of the U.S.A. to permit the export of certain supplies for the mines; and also spoke of the difference between the fixed price and the free market price. On 4th April General Smuts in the Senate used the term "black market" in connection with gold sales in India and Egypt, in the fight against which he said the U.K. were ready to allow South Africa a share. These and other statements led the English Press to infer that South Africa wished to make a new agreement concerning the official price of 168s. per ounce, and in the House of Assembly it was indeed alleged that the U.K. were making a profit of 3s. an ounce on the resale of South African gold to the U.S.A. On 18th April, however, the Minister of Finance strongly defended the agreement, and incidentally refused to issue gold currency as an anti-inflationary measure. The Opposition remained dissatisfied.

By

By the beginning of May procedure had been settled. The amount of South Africa's sterling payments during each month (from 15th April) would be converted into its gold equivalent, using as factors 1s.6d. per rupee and the average price of gold at the Indian sales during the same month. On receipt of advice that this amount of gold had been set aside for Bank of England account in South Africa the Bank would credit the South African Government with the equivalent in sterling in London. The arrangement was, of course, conditional on its being possible to sell an amount of gold in India sufficient to cover South African requirements. The U.S. Treasury were informed at the end of June, and agreed.

As the Government of India would not recognise sales on behalf of South Africa, it should have been quite clear that whenever sales on U.K. account were suspended or finally ceased no sales could be made for South African account, and the South Africans themselves should have realised this as an inference from a Dominions Office telegram dated 16th June. In London, at any rate the point seems to have been missed until again made by India on 29th July. There was consequently much discussion as to what would happen under these conditions. In fact U.K. sales were suspended on 22nd May, and it seemed unlikely therefore that a settlement with South Africa could take place at the end of June. The Bank held that as the South African Government's wish to sell gold in India arose from their anxiety to have a defence against the criticism that the U.K. were buying gold from South Africa at one price and selling in India at another, such criticism should not arise if the U.K. were not selling.

The position was complicated by a letter from the Chancellor to the Secretary of State suggesting that the South African sales should, like the American sales, be at the market price without any minimum limit. The Bank feared that if sales for South Africa took place without any relation to U.K. sales an argument would be provided to those in South Africa "who would like to sell lots of gold wherever they could get the best price for it". Moreover, the India Office might get the idea that they could

could continue sales by pressing for more South African gold.

By 26th June it had been agreed at the Treasury that if H.M.C. did not sell for their own account it would be embarrassing to continue sales for South Africa.

The next point raised/<sup>was</sup> whether; if sales were resumed, the Union Government should participate to cover purchases in India during the period of suspension; alternatively, what would happen if sales were suspended for a period of years, or if on resumption South Africa claimed all the proceeds, a contingency which the Treasury appeared to dislike.

But the U.K.'s decision (in July) to discontinue all sales in India on their own account was conveyed to South Africa on 4th August. To wind up accounts during residual sales, whenever effected, it was proposed that out of 3,200,000 ounces which would be available 312,000 ounces should be disposed of for South Africa. This represented their requirements not met in June, plus a further 250,000 ounces for the final period. The Finance Minister accepted this arrangement.

On <sup>4th?</sup> 8th June 1945 the London "official" price for gold had been raised to 172/3d. per fine ounce. On 19th June the Governor of the South African Reserve Bank, in a letter to Mr. Cobbold, referred to "opposition" press belittlement of the new <sup>arrangement</sup> ~~price~~ in the face of prices well above £15 in Indian and Middle Eastern markets, adding, ".....if something can be done about it one way or another, it will be appreciated by the Government".

In his reply (5th July) Mr. Cobbold, after referring to the uneconomical use of gold sold in that way "viewed in the light of the Sterling Area's need for foreign exchange resources" admitted that H.M.C. had again been <sup>Selling</sup> ~~selling~~ in Bombay "in completion of an outstanding agreement" but that they would probably stop by the end of the year; and ended, ".....I am sure that, as I think we all agreed in our discussions at Cape Town, it would not be to either your or our interests for South African producers to try to take advantage of the present unreal prices in India and elsewhere. I hope you will be able to damp down agitation.....".

The

The South African share of residual sales in India down to 25th August 1945, when they ceased, was 146,632 ounces. A new situation arose when the South African Finance Minister (Mr. Hofmeyr), who had stated in Parliament (3rd April 1945) that South Africa might expect to receive about £2,000,000 profit on the sale of the 312,000 ounces, wrote to the U.K. High Commissioner (Sir Evelyn Baring) on 29th August 1946, to enquire about the disposal of the remainder. His statement in Parliament seems to have been based on a too literal reading of the winding up terms, which were intended to imply that South Africa's share would be dependent on the sale of the whole 3,200,000 ounces available.

This very involved problem<sup>is</sup> covered in many letters and cables (from 2nd August 1946 - 4th July 1947; See S.D.35.4). A proposal to bridge the gap in the expected South African profits by buying gold from them at an inflated price was not adopted and South Africa accepted an offer of £500,000\* in final settlement, which the E.E. Account paid over on 7th July 1947.

\* In fact S. Africa anticipated making a profit in 1944/5 of £2 million, but only realised £1 million. The £500,000 was a compromise on this account.

SOVEREIGNS

*Preliminary:*

*Preliminary:* Dealings at a premium

Early in 1936 the Bank of France took measures to tighten their market, and it appeared likely that gold coin transactions would be transferred from Paris to London. The Bank of England consequently asked the market in May to refrain from dealing in gold coin at a premium. In the following month the B.I.S. circulated Central Banks in the same sense. The Bank of England's embargo, however, was removed in March 1937 with the consent of the French. There followed discussions at the B.I.S. on the question of the morality of dealing in gold coin at a premium by Central Banks. Opinion was divided, and in the event the Dutch, Swiss and Canadian Central Banks began to make a profit by such sales, but the amount of coin disposed of by them was not large enough to remove the premium. Dealing was chiefly in sovereigns.\* At the Bank of England's request, the South African Reserve Bank had refrained from ~~the sale of~~ <sup>Selling</sup> sovereigns.

By the Spring of 1938 the Bank of England had come to the conclusion that the existence of a premium on sovereigns was objectionable. For various reasons it was harmful to the market and to the status of gold. They therefore proposed that the South Africans should begin selling, and that they should themselves offer a sufficient amount to make sure that the premium vanished. The Bank of France raised no objection, the B.I.S. (25.4.38) withdrew their circular, and the Treasury were informed early in May. Between 9th May and 7th July the Bank sold about 2.6 million sovereigns for South African account (in advance of the arrival of this amount from the Cape). The prices realised ranged from 33s.6d. to 33s.10½d. A further small amount was sold for them in July and August at prices from 34s.3d. to 35d.1½d.

On

\*Dealing in U.S. gold coin except at face value is prohibited by the Constitution of the U.S.A.; consequently eagles generally realised a lower premium.

On 15th August the Governor agreed to begin selling the Bank's own stock for Treasury account: the Issue Department held about 50 million. ~~Between 15th August and 26th August 1939 the Bank sold 1,000,000 Sovereigns,~~ and in October and November about \$1.8 million in eagles.

After some weakening of the price following Munich no further sales took place until shortly before the war. ~~250,000 were sold on 21st August 1939 at 35s.3d. From 25th July to 25th August 1939 2301,000 was sold (at 25s.5d.)~~

Shortage: building up new stock

At the outbreak of war the gold taken over <sup>from</sup> the Issue Department <sup>by the</sup> Exchange Equalisation Account included approximately 47 million sovereigns. They were shipped to New York or Ottawa and the greater part eventually sold against dollars.

Early in 1942 the Bank, faced with a great shortage of sovereigns - a most convenient form of gold for sales in the Middle East, India, etc. - began to build up a reserve. The whole of the remaining stock in Ottawa (approximately 500,000) was repatriated to London in March, and by April some 1,100,000 sovereigns were held, of which about 800,000 were in London, 295,000 in Karachi (exchanged against bar gold with the Reserve Bank of India), and the remainder scattered in numerous centres all over the world. A further 200,000 sovereigns were held in Ottawa, of which 100,000 were for account of the Custodian of Enemy Property (Bank of France gold), and 100,000 for account of non-resident owners, ~~of which 100,000 were for account of the Custodian of Enemy Property (Bank of France gold), and 100,000 for account of non-resident owners.~~ These two amounts were replaced by bar gold and the sovereigns shipped to London in August 1942.

In May 1942 it was thought essential to acquire at least a further million sovereigns, and various possibilities were considered in detail. The Royal Mint were prepared to produce sovereigns, but would have faced many technical difficulties and a severe restriction of the minting programme for silver coin. The Ottawa Mint, approached through the Bank

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of Canada, said that although they could produce gold coins at the rate of 20,000 a day, being no longer a branch of the Royal Mint they could not mint sovereigns without fresh legislation. Even the minting of five-dollar pieces, which were suitable for our purposes, would present many difficulties in connection with the design of the obverse of the coin. Venezuela was known to hold a substantial stock of sovereigns, but any exchange of these was ~~impossible~~ <sup>impossible</sup> on the grounds of the desire for secrecy and of shipping difficulties. No stock of sovereigns existed in South Africa, which was in any case ruled out on political grounds; Australia, too, where there were branch Mints, could not help because of difficulties of shipment to the required destinations.

The Egyptian Government and National Bank held more than £4 million sovereigns in Cairo as cover for the Note Issue. The Foreign Office had tried, unsuccessfully, to persuade the Egyptian Government to remove gold from Egypt on the threat of invasion. The Egyptian Government proved equally unwilling to exchange sovereigns for bars to be held anywhere but in Egypt, although only 500,000 or 1,000,000 were asked for and all expenses were to be paid.

In August it was discovered that the Custodian for Enemy Debts held in London banks nearly 675,000 sovereigns for persons in enemy-occupied territory, nearly all of them in France, Belgium and Luxembourg. This coin had not been requisitioned and the Bank suggested its exchange against bar gold. The Treasury, however, now proposed vesting the gold on the ground that after the war it would be convenient not to be holding gold for France, etc. (from whom on the contrary this country would want to obtain gold); and also because the individuals to whom the gold belonged were not likely to be given anything by their Governments but their own country's currency. The Bank remained averse from such a course and the Treasury Exchange Committee decided against vesting on 11th August. The Sovereigns were not taken over. The Custodian felt that he had no powers, unless they were vested in him, to give instructions to the banks, and neither the Treasury nor the Bank wished to arrange an exchange with the banks on the basis of a promise to reverse the transaction when  
their

their clients asked for their coin.

Egypt seemed the obvious source of supplies. After considerable negotiation the Egyptian Government agreed to provide 1,000,000 sovereigns against bar gold, which was shipped from South Africa and arrived in Cairo in November. The terms of the transaction\* were peculiar, for the Egyptians demanded not only the equivalent amount of gold but also gold for the value of the alloy in the sovereigns and for the cost of minting the sovereigns and their transport to Egypt from England. Such a bargain was expected to satisfy their Parliament, combined with an engagement to return the sovereigns after the war. It meant giving the Egyptians about 8,500 ounces of gold more than was received from them. However, as the deal was to be reversed eventually, the Treasury and the Bank did not object, nor indeed could they, as the Minister of State in Cairo had already agreed. The exchange was effected early in November, and the required adjustment made <sup>by</sup> a deduction from the sovereigns received instead of by increasing the bars surrendered. 966,279 sovereigns were obtained, a book loss of £71,109: 2: 6 incurred, and the E.E.Account reimbursed in sterling at 39/9d. per sovereign. The sovereigns were placed at the disposal of the Minister of State, but the Treasury were anxious to keep at least 100,000 for Saudi Arabia because of the difficult currency position there, and this amount was in fact despatched to Jeddah in February 1943. Saudi Arabia promptly asked for another 100,000 in March (because of India's inability to continue food supplies), and these too were sent from Cairo.

Meanwhile an approach had been made to India. The Reserve Bank who had a stock of 10,000,000 sovereigns (cable 21.12.1942) felt that it would be politically undesirable for them to accept gold earmarked abroad in exchange for sovereigns, and suggested that bars should be shipped, in lots of not more than 500,000. In February 1943 it was decided to ship bars from South Africa to Bombay; and a further 250,000 sovereigns were obtained in

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\*Conveniently recapitulated in a memorandum of 18.12.1945 (file S.D.1.vol.2.).

in this way and kept temporarily with the Reserve Bank. Early in May the total held for H.M.Treasury had been raised to over <sup>2,000,000</sup> ~~£ million~~ (of which 338,000 in India and 663,000 in Egypt) but it was estimated that Saudi Arabia would need a further 300,000 in 1943 in addition to the 200,000 already sent.

An incidental complication was a premium on George V sovereigns for which various and not altogether convincing explanations were offered - loss of weight, fear of early withdrawal and greater likelihood of passing counterfeit coins of the older issues. But the discrepancy in value would hardly have been accounted for by these considerations.

Bars from South Africa continued to arrived in Cairo, exchanged by the National Bank for sovereigns for delivery to the Minister of State, who was now needing fewer because small bars were coming forward in large enough quantities to meet his requirements. In November, therefore, the National Bank were asked to continue exchanging bars from South Africa for sovereigns, but to hold all sovereigns for account of the Bank of England in view of their need of them "for special purposes connected with the war effort all over the world"; and to hold 500,000 to meet the Minister of State's requirements (cable 15.11.1943).

At the end of March 1944, immediately following a further shipment of 200,000 to Saudi Arabia, the National Bank were asked to hold 500,000 more sovereigns at the disposal of the Minister of State (and a request for a further 500,000 followed on 5th October).

Between June and November 1944, total stocks of sovereigns fell <sup>from</sup>  $3\frac{1}{2}$  million (of which Cairo 1,750,000, London 850,000) to  $2\frac{3}{4}$  million (Cairo 1,600,000, London 300,000): stocks of about 800,000 in India and South Africa had changed little. Absorption by the Middle East had now become negligible, but demands had arisen elsewhere, notably an anti-inflationary one in Greece, where the currency had become almost valueless after the liberation in October 1944. The Greeks asked H.M.Treasury for 450,000 sovereigns in exchange for bars held for them in South Africa. The Bank thought that to send sovereigns to Greece would hamper the use of B.M.A.notes

and

and add to the difficulty of issuing new drachma notes later: they had no doubts that the transaction should be an exchange and not a subsidy. The exchange was made and the sovereigns shipped in October and November.\*

Meanwhile the Treasury had consulted the Mint as to the possibility of resuming coinage, if necessary, and were informed that 1,000,000 sovereigns could be delivered six weeks after notice.

Early in 1945, the situation having materially changed, the Bank withdrew earlier instructions to the National Bank of Egypt to hold sovereigns and small bars at the disposal of the Minister of State.\*\* The latter was already turning in sovereigns: by April 84,000, on military account, had already been received, and the National Bank were given a general authority to receive for Bank of England account any further sovereigns paid in by the Minister.

At the end of 1945 the position may be summarized thus: since 26th November 1942 we had acquired in Cairo 3,862,698 sovereigns and half sovereigns against 942,023.2 fine oz. in South African bars, of which 33,840 fine oz. was written off as premium against cost of alloy and minting charged under the terms of the 1942 agreement. The overall premium worked out at just under 3.6%

At the end of 1945 ( memo. 18th December) our total stocks of sovereigns and half sovereigns were:-

In London	430,000
" Cairo	1,753,000
" India	538,000
" South Africa	323,000
	<hr/>
	3,044,000
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In

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\*There were further shipments of 250,000 in November 1946 and 300,000 in December 1947.

\*\*In April, following unexpected though small further demands from Saudi Arabia, the National Bank were instructed to hold 10,000 temporarily for his account.

In respect of both our Indian (letter 25.4.1946) and our Egyptian (cable Cairo to Foreign Office 26.10.1946) holdings, the Bank of England were asked whether they would prefer to exchange their sovereigns for ba<sup>n</sup>ks. The Bank no doubt felt that if they not only reversed the original deal of 1,000,000 in 1942, but parted with all their Cairo sovereigns, their residual world stock of less than 1,300,000 would seem unduly small. In their reply to India (13.5.1946) they said that if the Reserve Bank had no objection they would prefer to retain the gold in the form of sovereigns. The F.O. reply to Cairo (14.11.1946) said...."We do not wish to exercise our option to repurchase the gold by the payment of sovereigns."

Gold for India Key . . . .

In the war of 1914/18 the Bank sold gold to the Trade at <sup>s d</sup> 78/1 per oz. std. apparently without discrimination, up to 4th July 1916, 42,607 oz. std. being disposed of. After that date Board of Trade permits were required. Between then and the end of April, 1919, when gold became a free import, the Bank sold some 80,000 oz. std., over 95% of which represented sales (at <sup>s d</sup> 77/10½ per std. oz.) by Johnson Matthey & Co. to the Dental and Pottery Trades. All gold coin had not been paid in, and since the Bank did not refuse to cash their notes in gold, control of the Trade was not easy; for though the melting of gold coin was illegal there was no doubt that melting continued. The gold supplied by the Bank to the Trade was in any case far from being all it used: old gold supplies must have been considerable. A rationing of the jewellery trade was considered, but the Bank had their way and gave ~~it~~ <sup>the trade</sup> no assistance whatever, even in the matter of wedding rings.† But the Trade managed to carry on. The Bank's attitude to releasing gold became stiffer as the war went on, and they did not approve of all the permits granted by the Board of Trade. No gold for fountain pen nibs was released, but apparently imports from New York were allowed under licence.

In the second world war the position was rather more susceptible to rationing. Little gold coin remained in the hands of the public. All gold coin and bullion was called in under the Defence (Finance) Regulations, and the supply of gold articles (and coin) had been much reduced by the high prices obtainable in the years following the abandonment of the gold standard in 1931.

It was thought that the supply of scrap gold would be more than sufficient to meet the contracted needs of the Trade, and for this reason in the first war year not much attention was paid to it, although, of course, exports were controlled.

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†The Treasury said that though a scarcity of rings might make marriage unpopular it would not make it impossible.

However, by the end of June 1940 the Exchange Control Treasury Committee expressed the opinion that the Limitation of Supplies Orders should not exclude goldsmiths and jewellers, as the Board of Trade had proposed. The Board thought an alternative method of control might be put into force through the refiners, of which there were only three of importance. Rothschilds, however, pointed out that the Trade would then cease to send supplies to the refiners and the Bank of England would be forced to supply the essential industries.

The first of the Limitation of Supplies Orders affecting jewellers, etc., appears to have been issued prior to the beginning of October, 1940, and restricted manufacturers to two-thirds of their normal output.\* The wording of one of its clauses, however, was defective; it was not intended to grant permission to exclude from the quota gold which had been received and remodelled, but manufacturers were soon interpreting it as though it were. This state of affairs did not last long, and a further Order (S.R. & O. No. 2031, 26th Nov. 1940) which came into force on 1st December, both reduced the home trade in goldsmiths' wares from two-thirds to <sup>one quarter</sup> ~~two-thirds~~ of normal, and removed the concession concerning the remodelling of gold.

During 1940 and 1941 it was found that the supplies of old gold were declining, while demand expanded under the influence of increased purchasing power. With increased earning capacity there was less inducement to the public to sell gold articles. Prices of jewellery, etc., went up rapidly, though chiefly as a result of the Limitation Orders.

Hoarders of old gold increased, and even if they could have been identified<sup>†</sup> they could not have been prosecuted without an amendment to the Defence (Finance) Regulations, which might have

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\*Computed by value: hence, as prices rose, volume might be affected to a greater extent. The Orders did not apply to barometers, clocks and watches.

†They were largely, in the opinion of Johnson Matthey & Co., manufacturers and retailers.

led to the licensing of all refiners, wholesalers and retailers of ~~the~~ gold in an unmanufactured form. To control the Trade as a whole was thought too difficult, and in October, 1941, the Bank proposed to the Treasury that they should supply essential needs.

~~Industrial~~ Industrial demands, excluding jewellery but including wedding rings, was estimated at about £1<sup>1</sup>/<sub>4</sub> million a year. (less than 150,000 pieces.) Pending a decision, the Bank began to supply Johnson Matthey & Co. with some gold.

In the following month the Board of Trade, supported by the Bank, were considering whether to control the percentage of gold in jewellery and goldsmiths' wares, with a view to preventing altogether the use of gold in the manufacture of such articles. At the same time they appear to have permitted wholesalers and manufacturers to sell off their stocks, either for three months or freely up to a fixed percentage, as holdings were large. But the proposed restriction to a percentage below 9 carats would have meant no hall-marking, and the jewellers claimed that such a measure would lead to a stronger hoarding demand. Eventually the Board of Trade (S.R. & O. No. 1813 of 28th Nov. 1941) permitted the sale of 9 carat gold for jewellery and other industrial purposes.

By 6th January 1942 it had been agreed that the Bank should provide gold for industry, at 169<sup>s</sup>/- per fine ounce, on the following conditions:

1. It was to be sold through the exclusive agency of authorised bullion dealers and to certain firms only.
2. Gold thus sold might be used only for specified purposes:
  - "Dental (grain sheet, wire and casting gold);
  - Gold beaters;
  - Industrial alloys, contacts, wires (for Government purposes);
  - Liquid gold for ceramics."

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Johnson Matthey & Co. claimed that this did not entail the hardship which might otherwise have been felt by the Trade, because of a new and superior 9 carat alloy which they had invented.

3. Authorised bullion dealers had to obtain a blanket undertaking from the purchaser of the gold to the effect that it would only be used for the purposes mentioned. Quarterly returns, showing the amounts purchased and the purposes to which they had been applied, were to be lodged with the Bank through the authorised dealer.

A notification was sent to the six authorised bullion dealers, with a list of firms which contained twelve names.\* The Bank were prepared to supply up to 2,000 ounces a week.

After this there was a good deal of discussion on the subject of gold spectacle frames and fountain pen nibs, and from 19th February the Bank began to supply gold for the manufacture of these two articles also, but on a fixed basis of 250 ounces per week for pen nib manufacturers<sup>47</sup> (increased to 300 at the end of 1943), and 200 ounces per week for the optical trade. (The manufacture of solid gold spectacle frames was prohibited by the Board of Trade). It was also agreed in March that, provided these limits were not exceeded, there would be no objection to fountain pen nibs being made of 14 carat gold, which was essential to prevent corrosion.

Returns for the first quarter under this new arrangement showed that industry did not need more than 1,250 ounces per week, and the Bank thereupon reduced the ration to this figure. Later, the question arose as to whether the Bank's notification related to home trade only or covered the export trade. The Bank contended that it referred to the home trade; and an export licence could not be claimed as of right. Scrap gold could be used for luxury articles sold at home or for export - subject of course, to licence in both cases. However, late in 1943, under pressure from the Board of Trade, it was decided that gold supplied by the Bank to gold beaters and manufacturers of ceramics might be exported (under licence) in the form of gold leaf and liquid gold. Total exports of jewellery at this time were only about £50,000 a year<sup>4</sup> out of a production of about £1½ million and stocks of £2 million. There

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\*All being members of the Federation of British Bullion Dealers.

<sup>export</sup>  
Even this figure was rather higher than the value of the total U.K. export trade in gold wholly or partly manufactured (including watches) in the late 1930's.

There appeared, therefore, to be little danger of demands being frustrated by lack of supplies, and no useful purpose would have been served by making more gold available.

Future appeals for an increased supply for industry, of which there were several, found little sympathy where it was wanted for the home trade; the Board of Trade were increasingly insistent that only the export trade (an insignificant fraction, anyway, of total exports) should be favoured. In view of later developments it may be useful to give here a short account of its control.

Exports Prior to July 1940 the Bank controlled all exports of industrial gold, and their practice appears to have been to allow small amounts for dental and surgical purposes, irrespective of destination; and any export, even of luxury goods, to any country of the Sterling Area which was a gold-producer (and which, therefore, in the absence of exports might hold back equivalent supplies). The export of luxury goods was not permitted to other countries, and among luxuries were classed gold leaf and gold wire (for rings).

But exports were also allowed if paid for in U.S. or Canadian dollars, unless the receiving country was one with which a Payments Agreement had been concluded.

A high conversion factor was therefore not regarded as a sufficient reason for export. Liquid gold, of which exports were normally large, had a gold content as high as 60%, and would not in any case qualify. No exports of liquid gold seem to have been allowed up to July 1941, when exceptionally one or two were permitted.

The Bank raised no objection to the import of processed gold.

The Board of Trade took over the responsibility for licensing exports of processed gold in July, 1940, but referred all applications to the Bank, gave no licences unless the Bank recommended them, and the Bank continued to apply the principles enumerated above. Certain exceptions were made, however, in the case of South Africa because it was in line with the Bank's policy that gold could be brought to the U.K. for processing and re-export.

No exports to Eire were allowed (except for medical purposes) unless a similar amount of scrap had been imported.

As early as June 1943 the Bank advocated the removal after the war of all restrictions on the use of gold (and silver) for industrial purposes.

In July 1944 a bullion dealer applied to the Bank for gold to manufacture and export to India. The order, from an Indian prince, appeared to be a profitable one. At this time the Bank were selling gold at 300<sup>s</sup>/- an ounce in India and did not wish to make gold available at 169<sup>s</sup>/- ~~£~~ which might be resold at a high premium. The Exchange Control Treasury Committee accordingly invented a compromise for such cases (1.8.44). The client could either acquire gold abroad and ship it to the U.K. for manufacture and re-export, or deposit gold with the Reserve Bank of India against which the Bank of England would place an equivalent amount at his disposal in London - a facility of which no one appears to have taken advantage.

An analysis of the quarterly returns of gold for industrial purposes is given in <sup>a table</sup> ~~the statement~~ below. It shows that up to September 1944 total sales for the four industries named in the Bank's notification of 6th January 1942 did not average as much as 1,250 ounces a week in any one quarter, while optical uses fell much below the quota of 200 ounces. ↩

Pen nibs used rather more than the enlarged limit of 300 ounces per week, demand being especially high in 1944.

In October 1944 the fountain pen nib trade asked for an increased allocation - some for export. The Treasury agreed, and on 5th January 1945 raised their allotment as follows:-

For the 1st Quarter 1945	360 oz.
do. 2nd do.	420 oz.
Thereafter	450 oz.

On 9th October the Bank received a letter from the Federation of British Bullion Dealers setting out a case for the release of more gold for industrial use. After considerable discussion and correspondence with the Treasury the London authorised bullion dealers

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were informed (L. 7th February 1945) that the Bank were prepared to make further gold available for manufacture and export, and ~~setting out~~ the conditions for obtaining it *were set out*.

The sale would be only (through authorised dealers) to manufacturers producing a Board of Trade export licence. There would be no restrictions on the export of fully manufactured articles or semi-processed gold so long as it was not in a form which could profitably be reconverted into a marketable form for sale in the country to which it was consigned. Applicants would have to comply with the directions issued from time to time by H.M. Customs & Excise; and manufacturers must submit to the Bank, as soon as possible after 30th June 1945 and thereafter quarterly, a return showing the amount purchased in the previous quarter, the country to which <sup>in</sup> (and the form in which) the articles were exported, and the amount remaining in stock. Authorised dealers also were required to furnish a quarterly return in addition to their existing ones. It was also agreed that a small extra supply should be provided for the manufacture of monogram brooches, etc., by disabled ex-service men.

In May 1945 the Bank received, through Johnson Matthey's, copies of memoranda emanating from the National Union of Gold, Silver and Allied Trades and the Birmingham Jewellers' Association, voicing the embarrassment of their member firms through lack of raw material for the home industry. Their efforts to reinstate workers now no longer required on war work outside the Trade were being frustrated. Further points were that the pegged price of gold had led to speculative purchases outside the Trade, in turn causing a black market; and that there was a ready market for articles of jewellery among "millions of foreigners in England and others returning home through England" (presumably mainly American ex-service personnel). Johnson Matthey's supported a suggestion that dealers should be afforded a float (say 1,000 ozs.), earmarked for export, to avoid congestion between the withdrawal of the gold and its manufacture. By the end of July they <sup>had</sup> outlined a scheme under which the Bank would sell to the industry a total

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"replenishment" of 75,000-100,000 ounces over a period of six months to a year. (Pre-war consumption was about 156,000 ounces a year).

Early in September the Treasury, the Bank and Johnson Matthey's were able to decide on a form of this scheme, under which a "strictly limited" amount of gold would be made available in order to maintain a stock of goods ready for immediate sale for export. This additional release amounted to 50% of the amount claimable for replacement of goods manufactured and exported after 7th February 1945. There was still no concession by way of replacing gold sold by the Bank and used in the Home Trade.

Gold for essential purposes in the U.K. (the dental and optical trades, wedding rings, gold beaters, pen nibs, liquid gold and the electrical industry) continued to be applied for separately; but if such goods were exported, replacement and its <sup>50%</sup> bonus were to be applied for under the new scheme. The scheme was explained to the dealers at a meeting held on 3rd October.

Between September 1944 and September 1945 the average weekly industrial demand increased by about 1,000 ounces (to 2,850), but fell in the last quarter of 1945 to about 2,400.

#### Wedding Rings

Wedding rings were a special problem, and although no gold was released for their manufacture by the Bank until the first quarter of 1943, a more sympathetic attitude towards them was taken than in the first world war.

Following the Limitation of Supplies Order in December, 1940, gold wedding rings of 22 carats were being sold on quota at 275/- per ounce; those of 9 carats at 135/-: prices equivalent to £15 and £18 per fine ounce. About a year later prices had risen, it was alleged, to £40 and even £70 per fine ounce. Manufacturers began early to recommend the public to accept 9 carat rings, to make the supply go round. However, in November, 1941, as it was believed that gold supplied for rings might be converted to other purposes, Johnson Matthey & Co. suggested that all rings should be of 22 carats and

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made in one pattern instead of in seven or eight. Each manufacturer should be required to have his rings marked at one Assay office only. The quantity of rings manufactured would thus become easier to check. The price should also be fixed to prevent rings being re-melted, and supplies should be based on the requirements of the first eight months of 1941. Under this scheme the quota laid down by the supplies Order would be withdrawn.

At this time it was estimated that about 3,800 ounces of gold were being used each month for wedding rings. This seemed excessive, and the Treasury asked the Board of Trade whether they had any objection to stipulating a maximum content of 9 carats, to be accompanied by an agreement with the Trade on a fixed reasonable price. By January 1942 it had been suggested that this price should be one guinea; other figures were mentioned later, and 25<sup>s</sup>/- seems to have become the fixed price. A Board of Trade Order of November 1941 restricted rings to 9 carats; but if the Control were to supply gold, as the Treasury were prepared that they should, it would also be necessary to limit the total weight. This had apparently been done before the Bank began to release supplies early in 1943. Meanwhile the supply of scrap had been sufficient to meet demands. But in February 1943 it was alleged that scrap was becoming inadequate and that the Trade would need from the Control about 250 ounces a week. The Treasury expressed themselves as quite ready to "allow any amounts required from the central stock for this purpose" (L.S.2.43) and the Bank thereupon began to sell about 5/600 ounces a week.

This evidently represented a banked up demand as after the first six months requirements fell off, and over the years 1943 and 1944 averaged less than 250 ounces per week. (In 1943 the average weekly demand for wedding rings was less than 3,000 ounces, and in 1944 less than 2,500).

## GOLD FOR INDUSTRIAL PURPOSES

GOLD FOR INDUSTRIAL PURPOSES  
Analysis of quarterly returns\*

Fine ounces (decimal points ignored)

	Dental	Gold Beating	Alloys, Contacts, Wires, etc.	Ceramics	Medical	Total: General Industries	Pen Nibs	Optical	Wedding Rings	Remainder (Ex-service men, etc.)	Total
March 1942	4,170	3,097	2,556	4,067	480	14,370	264	217		68	14,919
June "	3,499	2,915	2,596	3,620	96	12,726	2,800	1,758		65	17,349
Sept. "	3,560	2,442	2,835	2,927	192	11,597	3,255	1,553		360	16,765
Dec. "	3,708	2,777	3,077	3,270	96	12,929	2,930	1,946			17,805
March 1943	4,383	2,931	3,132	2,957	96	13,499	2,943	2,456	4,150		23,048
June "	4,820	3,092	3,950	2,748	96	14,707	3,148	1,599	4,953		24,407
Sept. "	4,570	3,181	4,176	2,798	96	14,823	2,948	1,648	3,689		23,108
Dec. "	4,422	3,708	3,640	2,758	192	14,722	3,148	1,441	3,164		22,475
March 1944	5,743	2,550	4,702	3,654	192	16,843	4,108	1,323	3,115		25,389
June "	5,223	2,816	2,693	3,644	-	14,376	4,348	1,561	2,480		22,765
Sept. "	4,655	2,954	3,683	3,730	192	15,215	4,348	1,308	3,183		24,054
Dec. "	6,372	3,627	4,330	4,526	289	19,144	4,298	2,124	4,194		29,760
March 1945	7,223	2,738	5,472	4,792	193	20,419	4,647	1,724	4,613	117	31,520
June "	8,186	3,454	3,832	6,759	386	22,617	4,608	1,985	5,071	109	34,360
Sept. "	8,496	3,097	5,034	6,093	-	22,720	6,447	1,869	6,154	211	37,401
Dec. "	6,987	4,097	4,055	3,756	96	18,991	5,777	2,069	3,906	318	31,061

\* F.E. Control - Statistics Office.

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