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Memorandum on Silver

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COUNTRIES of the Pacific play a predominant part in both the supply and demand for silver. Mexico, the United States, Canada, Peru and Australia account for nearly %90 of the total world production, while China and India have long been the most important consumers of silver. The sharp fall in silver prices; its greatly curtailed use as a monetary metal; the numerous proposals for raising and stabilizing the price, which culminated in the silver agreement reached in London, July 1933, are thus of tremendous importance in the Pacific Area.

The Supply of Silver—Mexico is the leading silver mining country of the world with the United States, Canada and Peru following in importance. In recent years the world supply of silver has been greatly augmented by the sale of demonetized coins by various governments following the debasement of the silver coinage or the adoption of the gold standard.

The following tables show the production of silver and the supplies other than production, during the post-war period:

SILVER PRODUCTION IN PRINCIPAL COUNTRIES, 1920-1932
(million fine ounces)

	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932
United States	55.4	53.1	56.2	73.3	65.4	66.2	62.7	60.4	50.4	61.2	58.4	32.0	24.7
Mexico	66.7	64.5	81.1	90.9	91.5	92.9	98.3	104.3	108.5	108.7	105.7	109.0	69.3
Canada	12.8	13.1	18.6	17.8	19.7	20.2	22.4	22.7	21.9	23.1	26.2	26.1	18.3
Peru	9.2	10.0	13.2	18.7	18.7	19.9	21.5	18.3	21.6	21.5	--	9.3	6.3
Australasia	2.7	5.4	11.5	13.8	10.8	10.8	11.2	10.3	10.3	10.4	--	9.2	9.7
World	173.3	171.3	207.8	246.0	239.5	245.2	253.8	254.0	257.9	261.7	243.7	196.0	168.7

SUPPLIES OTHER THAN PRODUCTION—ESTIMATES

	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932
Debasement of British Coinage	--	--	24.0	25.0	2.0	7.0	0.7	1.2	5.5	10.0	--	--	--
Demonitized European Coins	18.0	31.0	19.0	20.0	18.0	23.0	7.0	8.0	32.0	10.0	22.0	--	--
Sales by Indian Gvt.	--	--	--	--	--	--	--	9.2	22.5	35.0	29.5	47	69

Total Other Supplies	18.0	13.0	43.0	45.0	20.0	7.0	0.7	18.4	60.0	67.0*	71.5†	--	--
New Production	173.3	171.3	207.8	246.0	239.5	245.2	253.8	254.0	257.9	261.7	243.7	196	168
Total Supply	191.3	202.3	252.8	291.0	259.5	252.1	254.5	272.4	317.3	327.9	315.2	251	230
Price, N. Y. (cents per 1 lb. average)	100	2.6	67.5	64.8	66.7	69.0	62.1	56.3	58.1	52.9	38.1	28.7	28.1

*Includes 12,000,000 sound by French Indo-China
†Includes 20,000,000 ounces sold by French Indo-China

Control of Silver Production—The control of silver production is highly concentrated, mainly in the hands of American and British interests. American interests control all the domestic output, amounting to 23% of the world's total; about 75% of the Mexican output;33% of the Canadian production, and 90% of the production in Peru. British capital controls about 22% of the world's mine production, located in Mexico, Canada, and Australasia. As regards refinery production, American interests control approximately 73% of the world total, 52% being located in the United States and the remainder in Mexico. British capital controls about 11%, in Canada, Australia and Burma. Japanese interests control 10%, located entirely in Japan.

Silver as a by-product—Silver is invariably found amalgamated to a greater or less degree with other metals, chiefly with lead, zinc, copper and gold. As a result, a large proportion of the world's silver supply is independent of the silver price of its continued production, as long as the amalgamated metals continue in demand. The United States Bureau of Mines estimates that only about a quarter of the world's silver production is produced from ores depending on silver for over 80% of the recoverable value. This factor is of great significance in any plan for restricting or regulating silver production and also in estimating the importance of the decline in silver prices to producers in general.

Demand for Silver—In the consumption of silver, purchases by China and British India are by far the most important items. Indian imports are in the form of bullion and jewelry and are intended entirely for the Indian people; the Indian Government having been, since the adoption of the gold standard in 1926, an important seller of silver derived from demonetized coins. Chinese consumption is of a different type. China is on the silver standard and the Chinese Government therefore buys silver regularly for coinage purposes. In 1931 the net imports of these two countries accounted for 45.5.% of the total sold that year.

The second item in the demand for silver is it use in arts and industries, chiefly in the United States, Canada, Great Britain and Germany, and the third is its coinage as a subsidiary metal in Western countries. The following table shows the world movements of silver in 1930 and 1931:

SILVER, THE MARKET, 1930-1931

SUPPLY	1930--Millions of fine ounces	1930--% of total	1931--Millions of fine ounces	1931--% of total
New Production	246.8	77.5	196.1	76.2
Sales by Indian Gvt.	29.5	9.3	35.0	14.1
Other Gvt. Sales of demonetized silver	42.0	13.2	24.5	9.6
TOTAL	318.3	100.0	255.6	100.0

DEMAND				
Net Indian Consumption	94.5	29.7	57.0	22.3
Net Chinese Consumption	123.0	38.9	59.0	23.1
TOTAL	217.5	68.6	116.0	45.5
German Consumption	8.0	2.5	28.2	11.0
Arts and Industries, U. S. A. and Canada	29.5	9.3	30.5	11.9
Arts and Industries, Great Britain	6.0	1.9	10.0	3.9
Arts and Industries, Mexico	1.0	.3	1.0	.4
TOTAL ARTS AND INDUSTRIES	36.5	11.5	41.5	16.2
COINAGE				
U. S. only	6.1	1.9	2.4	1.0
Hongkong	14.0	4.4	--	--
Otherwise unaccounted for	36.2	11.4	67.5	26.4
TOTAL	318.3	100.0	255.6	100.0

Silver Markets—The silver market is a wide one, including not only trade in bullion, but also the silver-currencies foreign exchange market. The four principal silver markets are Shanghai, Bombay, New York, and London. Most of the world's mine production passes through New York and San Francisco, a large volume going to London for sale and transshipment to the Orient. Shanghai is the chief receiving port for silver, Bombay being the next in importance. The silver markets are closely interrelated. Chinese buy and sell in New York, London and Bombay. Americans and Mexicans sell in London, Bombay and Shanghai. British Indians trade both way in London, New York and Shanghai. The following table shows the silver shipments from important ports, 1928-1932:

SILVER SHIPMENTS FROM IMPORTANT POINTS

	1928	1929	1930	1931	1932
San Francisco					
To China	62,637	57,111	45,340	15,719	13,642
To Japan	11	--	--	50	--
To India	--	--	757	577	--
To others	--	--	--	4,491	674
New York					
To England	892	151	5,292	11,648	1,574

To Germany	4,269	2,774	2,637	7,719	2,404
To China	36,903	64,102	51,573	20,695	21,479
To India	35,599	16,819	24,554	20,610	652
To others	2,686	248	89	609	440

London to the East					
To India	£4,012	£3,948	£5,648	£3,137	£639
To China	2,314	1,160	1,363	872	1,370
To Straits	198	--	12	64	67

Silver Prices—The history of silver in the post-war period has been one of the record prices in 1919 and 1920; a subsequent sharp and continued decline; and a long series of proposals for stabilization of production and raising of prices, mainly sponsored by the silver-producing interests in the United States. The boom in silver during and immediately after the war resulted from the heavy purchases of war materials by European countries in the Orient, necessitating payment in silver; from the constant rising level of commodity prices and industrial activity, and from the pitman Act of 1918 whereby the United States government undertook to purchase, at not less than $1.00 per fine ounce, sufficient American silver to replace that sold to Great Britain and exported to India.

The collapse of silver prices in 1920 was brought about primarily by the financial policies of various governments. In March, 1920, the British government, to prevent illegal melting of silver coins whose intrinsic value had exceeded their face value by 33%, reduced the silver content of subsidiary coins from an original fineness of 0.925 to 0.500. Between 1920 and 1938 thirty-two countries followed suited, eight of which abolished silver coins altogether. The sales from this demonetized silver from 1920 to 1930 amounted to 225,000,000 fine ounces.

In 1926 India adopted the gold standard, and upon the recommendation of the Royal Commission of Indian currency, the government began the sale of a large percentage of its stock of silver. In 1930, French Indo-China also abandoned the silver standard and unloaded heavy supplies of demonitized coins. In February 1931, silver prices reaches an all-time low of 25 ¾ cents per fine ounce. Production was greatly curtailed, but the decline in purchasing power of India and China, resulting from the general economic depression kept consumption far in arrears of supply:—

PRODUCTION AND CONSUMPTION OF SILVER
1929-1932
(millions of fine ounces)

	New Production	Other Supplies	Total World Supplies
1929	261	67	328
1930	244	72	316
1931	194	47	251
1932	161	69	230

CONSUMPTION

	India	China	Germany	Arts & Manufactures	Coinage	Unaccounted For
1929	82	137	12	44	25	29
1930	95	123	8	36	20	34
1931	57	59	28	42	21	56

1932	12	40	23	31	48	54

AVERAGE PRICE—PER FINE OUNCE

	London Spot	New York official
1929	24.5d	52.9 cents
1930	17.6	38.2 "
1931	14.6	28.7 "
1932	17.8	27.9 "

Efforts at Regulation of Silver Prices—There are two schools of thought regarding the desirability, means and results of raising silver prices. The silver producing interests hold that the decreased use of silver has brought about the collapse in price which in turn has caused an unprecedented shrinkage in international trade, and is an important factor in the under-consumption of commodities since it has reduced the purchasing power of virtually the entire Orient. A notable exponent of this school is Senator Key Pitman of Nevada who has been indefatigable in introducing silver into wider use as currency, and in stressing the importance of higher prices for silver as a stimulus to United States trade with the Far East and Mexico.

On the other hand, many economists hold that the decline in the price of silver is the direct consequence of the general economic depression and of its effect upon the gold value of the exports from Oriental countries. The amount of silver which India and China can buy depends on the buying power of their exports and the decline in silver prices is a result, rather than a cause of the decreased volume of Oriental trade. According to this line of thought, a rise in the gold price of silver, without a corresponding rise in the prices of Oriental export goods, would encourage imports into the silver-using countries, diminish their exports, and necessitate an increased export of silver to balance their international payments, causing a further upsetting of the silver market. An economically sound advance in the world price of silver, therefore, is contingent solely upon an increased demand for silver on the part of Far Eastern countries, which can only arise when China and India can sell their products in greater volume and at higher prices in the world markets.

Repeated demands on the part of silver producing countries for international action to raise silver prices led to the forming of a sub-committee on silver to report to Committee on Monetary Stabilization of the World Economic Conference in London. A provisional agreement was drawn up and signed on July 22nd by delegates from India, China, and Spain as the most important holders of silver, and from Australia, Canada, the United States, Mexico and Peru as the principal producers.

The main provisions are as follows:

For a four year period beginning in January, 1934:

1. The Indian Government will not sell more than 140 million ounces—an average of 35 million per year.
2. The Spanish government will not sell more than 20 million ounces.
3. The Chinese government will not sell silver from demonetized coins.
4. The government of the producing countries agree to buy or otherwise withdraw from the market a total of 35 million ounces per year. This amount ahs been apportioned as follows:

United States	24,421,410 ounces	69.78%
Mexico	7,159,108 "	20.45%
Canada	1,671,802 "	4.78%
Peru	1,095,325 "	3.13%
Australia	652,355 "	1.86%

The chief beneficiary of the agreement, apparently, will be the British Empire. Canada and Australia have agreed to absorb less than 7% of the 35 million ounces, although British capital controls nearly 22% of the world output. The government of India, while agreeing not to increase its sales beyond the previous maximum in any one year, retains its right to continue sales to governments desiring to pay their American war debts with silver. Under the Agricultural Adjustment act of May 12, 1933, the President of the United States was authorized to receive payment of these debts up to $200,000,000 at an arbitrary value of 50 cents an ounce. In making its war debt payment, June 15, 1933, the British government purchased 20 million ounces of silver in India at a cost of a little more than $7,000,000, and with this obtained a credit of $10,000,000 at the United States Treasury.

The time limit for ratification of the silver agreement is April 1, 1934; it is being stipulated that if any of the silver-producing countries withhold their consent, it will still become effective if those which ratify it make arrangements to buy or withdraw from the market a full allotment of 35,00,00 ounces.

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