

Mr. Eccles

July 1, 1937

The Board

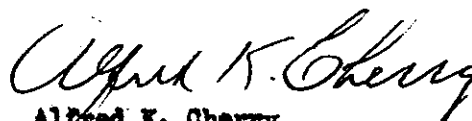
Mr. Cherry, Assistant Counsel

Immediate program of House Banking and Currency Committee.

At the meeting of the Banking and Currency Committee of the House this morning Mr. Steagall announced that commencing next Thursday or Friday, July 8 or 9, the Committee would commence hearings on Mr. Goldborough's bill (H.R. 7188) to provide a monetary policy, etc. with reference to retail prices. Upon the conclusion of these hearings Chairman Steagall announced that hearings on Mr. Patman's bill (H.R. 7230) providing for Government ownership of the 12 Federal Reserve banks would be commenced.

Mr. Steagall also requested that committee members familiarize themselves with H.J.Res. 377 authorizing the destruction of Federal Reserve notes of the series of 1928, so that that bill could be considered by the Committee in executive session in the near future. He stated that personally he would like to see the bill pass for the reason that it was a misrepresentation to have on the face of a Federal Reserve note a statement that it is redeemable in gold when as a matter of fact it is not. He stated, however, that some members of the committee were opposed to the bill for other reasons and expressed the undesirability of reporting out the bill if such action would perpetrate a fight on the floor of the House, thereby jeopardizing its passage.

Respectfully,


Alfred K. Cherry,
Assistant Counsel.

July 6, 1937.

Memorandum to Chairman Eccles:

In response to a request that you made recently, Mr. Smead has prepared and there are attached two memoranda addressed to you, one of which contains a statement of the estimated cost to the Federal Reserve Banks of replacing all new 1928 series Federal Reserve notes held by the Agents or on hand at the Bureau of Engraving and Printing at the present time with new 1934 series notes, segregated as far as possible by banks. The other memorandum contains a resume' of actions taken and correspondence on this subject.



Secretary.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 1, 1937To Chairman Eccles

Subject: _____

From Mr. Smead

In accordance with your request there is given below a statement showing the estimated cost by Federal Reserve banks of replacing all new 1928 series Federal Reserve notes held by the agents, or on hand at the Bureau of Engraving and Printing, at the present time, with new 1934 series notes.

Federal Reserve Bank	Cost of printing 1934 series notes to replace:			Estimated cost of shipping new 1934 series notes to F. Agents to replace 1928 series notes held by them	Estimated cost of shipping to Washington new 1928 series notes held by agents as canceled notes	Total (Excluding approximately \$20,000 representing cost of redemption at Treasury)
	1928 series notes held by Federal Reserve Agents	1928 series notes held at Bureau of Engraving and Printing				
		Completed notes	Incomplete face printed notes			
Boston	\$50,397	\$105,281	\$7,123	\$14,825	\$1,380	\$179,006
New York	119,680	159,231	52	30,547	1,967	311,477
Philadelphia	7,760	107,525	3,265	7,738	313	126,601
Cleveland	54,137	123,981	9,124	21,494	1,385	210,121
Richmond	13,090	44,038	4,723	4,501	345	66,697
Atlanta	8,602	37,868	1,437	3,876	344	52,127
Chicago	64,795	170,263	10,465	54,413	5,761	305,697
St. Louis	14,399	8,602	819	14,558	2,012	40,390
Minneapolis	12,810	30,107	795	6,590	942	51,244
Kansas City	28,143	59,653	3,248	15,390	2,394	108,828
Dallas	23,656	33,754	4,659	9,779	1,618	73,466
San Francisco	131,554	28,704	9,206	54,546	12,682	236,692
TOTAL	529,023	909,007	54,916	238,257	31,143	1,762,346

The above estimated cost is for new 1928 series Federal Reserve notes only.

In addition, the Federal Reserve Agents held an unknown amount of fit 1928 series Federal Reserve notes, which under the terms of House Joint Resolution 377 might be replaced at Government expense. On May 31, 1937,

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the Federal Reserve Agents held about \$635,000,000 of fit Federal Reserve notes and if, as is believed to be the case, about 90 percent of these notes are notes of the 1928 series it would cost approximately \$170,000 to cancel and return to Washington fit 1928 notes held by the Federal Reserve Agents and to print and deliver to the Federal Reserve Agents new notes of the 1934 series to take their place.

Some portion of such expense should, however, be borne by the Federal Reserve as the notes have been used to some extent.

A handwritten signature in cursive script, likely belonging to E. A. Tamm, the Chief Justice of the United States at the time.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date June 29, 1937To Chairman EcclesSubject: Replacement of Federal ReserveFrom Mr. Smeadnotes of the 1928 series.

G P O 16-852

In connection with the resolution now pending in Congress to authorize destruction of the stock of unissued Federal Reserve notes of the 1928 series bearing the words "Redeemable in gold", and their replacement with notes of a later series at the expense of the Treasury, the following is a resume of action and correspondence on this subject.

The Gold Reserve Act of 1934 (approved January 30, 1934) amended paragraph 1 of Section 16 of the Federal Reserve Act to provide that Federal Reserve notes should be redeemed "in lawful money" instead of in gold or lawful money as previously required. This change in the law made it necessary to consider:

- A. What change should be made in the wording of the redemption clause on Federal Reserve notes, and
- B. What disposition should be made of notes containing the redeemable in gold clause.

Anticipating the necessity of a change in the wording of notes, the Bureau of Engraving and Printing on February 12, 1934, suspended the printing of the 1928 series notes, there then being about 3,893,000 sheets of incomplete face printed notes on hand at the Bureau.

With respect to the disposition of notes already printed, the Board's views were expressed in the following excerpt from the minutes of its meeting held on February 23, 1934:

"All of the members of the Board present expressed agreement with the suggestion that Federal Reserve banks should continue to pay out the Federal Reserve notes and Federal Reserve bank notes now on hand, that printings of notes in the present form be suspended for the time being, and that consideration of the replacement of the present notes with notes in the new form be deferred."

On March 1, 1934, Mr. Oliphant addressed a letter to Governor Black inclosing a copy of recommendations for changes called for in the wording of notes by the new terms of the law. The Board acknowledged this letter March 7, and concurred in the changes recommended. In this correspondence there was no mention of the disposition to be made of the stock of notes of the 1928 series. Delivery of completed notes of such series to the Federal Reserve vault at the Bureau of Engraving and Printing was suspended February 28, 1934, and resumed August 1, 1934, and notes of this series continued to be paid out by the Federal Reserve banks. Printing of the new series notes began September 27, 1934, and the first delivery was made on October 17, 1934.

On July 27, 1935, as stated in a memorandum to you on that date, I was advised by telephone that Mr. Coolidge had recently raised the question as to whether Federal Reserve banks should continue to pay out Federal Reserve notes of the 1928 series bearing the words "redeemable in gold".

At the Governors' Conference on October 24, 1935, the policy with respect to paying out new Federal Reserve notes of the 1928 series was discussed, and the consensus of opinion seemed to be that so far as practicable the Federal Reserve banks should refrain from paying out the notes bearing the clause "Redeemable in gold". Most of the Governors expressed the opinion, however, that the initiative in this matter should come from the Board or from the Secretary of the Treasury, particularly as Section 16 of the Federal Reserve Act provides that Federal Reserve notes shall be in form and tenor as directed by the Secretary of the Treasury.

On December 13, 1935, a letter was received from the Secretary of the

Treasury stating that in the view of the Treasury the issuance of new Federal Reserve notes of the 1928 series should be discontinued as soon as a sufficient stock of Federal Reserve notes of the 1934 series was available. The Secretary stated that he proposed to instruct the Director of the Bureau of Engraving and Printing to cease delivery of the 1928 series and to cease working on any such notes in process of completion. He also stated that these instructions would be issued on the assumption that for the present Federal Reserve Agents would not issue notes of the 1928 series when notes of the 1934 series were or could be made available, and that the Board of Governors would not ask for shipments of notes of the 1928 series when notes of the 1934 series were or could be made available. The Secretary of the Treasury requested advice as to whether it would be satisfactory to the Federal Reserve banks for him to instruct the Director of the Bureau of Engraving and Printing as proposed, and stated that if the proposed procedure were followed he would submit to the appropriate committees of Congress the question of making at its next session an appropriation to defray the expenses of replacing notes of the 1928 series.

The Secretary's letter was submitted to the Governors' Conference which convened December 17, 1935, and in a letter dated December 20, 1935, the Board in replying to the Secretary stated that the Governors were in accord with the proposed procedure, with the understanding that if Congress did not at the forthcoming session authorize the Treasury to replace notes of the 1928 series the question as to whether the banks should resume paying them out would be given consideration promptly after the adjournment of Congress.

In this letter the Board also stated its understanding that acquiescence

in the Treasury's program would not in any way prejudice the right to resume paying out notes of the 1928 series in case the Treasury was not authorized to replace the stock of such notes with notes of the 1934 series.

In a letter dated January 3, 1936, Acting Secretary of the Treasury Coolidge acknowledged receipt of the Board's letter and advised that he had instructed the Bureau of Engraving and Printing to cease delivery of 1928 series notes and to cease working on any such notes then in process of completion.

In a letter dated January 20, 1936, the Board gave all Federal Reserve Agents copies of its recent correspondence with the Treasury on this subject. It also requested the Agents, as desired by the Treasury, to make no further issues of Federal Reserve notes of the 1928 series when 1934 series notes were available, and directed that the stock of new 1928 series notes be retained for possible emergency use.

On April 7, 1936, the Board wrote to the Secretary of the Treasury regarding copies of a draft of a proposed joint resolution submitted informally by Mr. Bernstein of the Treasury Department authorizing destruction and replacement of notes of the series of 1928. In this letter the Board suggested certain changes in the resolution.

On April 28, 1936, the Board approved your recommendation that the Federal Reserve banks be informed that it would not be practical for the Treasury to obtain at that time the necessary appropriation for replacement of the existing stock of notes of the 1928 series and that the question of replacement should be held in abeyance until the next session of Congress.

In a letter dated December 29, 1936, to the Secretary of the Treasury you reviewed briefly the circumstances connected with the discontinuance of the issue of new Federal Reserve notes of the 1928 series, and requested to be advised as soon as practicable as to the action to be taken by the Treasury Department with respect to their replacement.

On April 8, 1937, Mr. Oppen, Assistant General Counsel of the Treasury, telephoned that it was proposed to send a suggested joint resolution to Congress to provide for the replacement of 1928 series Federal Reserve notes, and requested telephone advice as to any comment the Board might have to offer on the proposed joint resolution, copies of which he submitted to Mr. Vest informally, together with copies of proposed letters on the subject to the presiding officers of the Senate and House respectively, and to the Director of the Budget. In accordance with Mr. Vest's memorandum to the Board under date of May 10, Mr. Oppen was advised that the Board had no objections or comments to offer.

The proposed joint resolution was submitted to the committees of Congress and is designated H. J. Res. 377. It is now being considered by the Committee on Banking and Currency of the House. It authorizes destruction of the unissued notes, completed or uncompleted, of the 1928 series, replacement thereof by the Treasury, and the appropriation of not more than \$3,000,000 for the purpose. In order to avoid being subject to a point of order, the joint resolution itself makes no specific appropriation, but merely authorizes one, which will have to be included in some later appropriation bill. The sum to be appropriated is to be taken from miscellaneous receipts of the Treasury resulting from reduction of the weight of the gold dollar.

Section 16 of the Federal Reserve Act provides that the Comptroller of the Currency shall cause plates and dies to be engraved and shall print therefrom such quantities of Federal Reserve notes as may be required to supply the Federal Reserve banks and that, "Such notes shall be in form and tenor as directed by the Secretary of the Treasury." It is clear from this that notes cannot be printed in any form other than that prescribed by the Secretary of the Treasury; but, Counsel advises that, when such notes have been printed in accordance with the form prescribed by the Secretary of the Treasury at the time, it is doubtful whether the Secretary has the right to prevent such notes from being paid out and thereby put the Federal Reserve banks to the expense of printing notes in a new form which he prescribes. As a practical matter, it would seem that since the Bureau of Engraving and Printing is under the jurisdiction of the Secretary of the Treasury, the Federal Reserve banks could not obtain delivery of notes in the old form if the Secretary of the Treasury should instruct the Bureau of Engraving and Printing to make no further deliveries of such notes. On the other hand, as a practical matter, there is no machinery provided by which the Secretary of the Treasury could call in the notes in the old form which had been delivered to the Federal Reserve banks or prevent them from paying them out. However, it is assumed that this matter will be adjusted on a basis of mutual cooperation and that no situation will arise in which either the Secretary of the Treasury or the Federal Reserve banks would take advantage of a strategic situation to enforce or defeat the will of the other in a matter of this kind. From the standpoint of equity, it seems clear that, where the Federal Reserve banks have paid for the printing of notes in accordance with the form prescribed

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by the Secretary of the Treasury at the time and the Secretary has subsequently prescribed a new form as a result of devaluation from which the Treasury derived a large profit, the Treasury should bear the cost of replacing all notes in the old form which are fit for circulation.

A handwritten signature in cursive script, likely belonging to E. H. Snodgrass, positioned to the right of the main text block.

75TH CONGRESS
1ST SESSION

H. J. RES. 377

IN THE HOUSE OF REPRESENTATIVES

MAY 24, 1937

Mr. STEAGALL introduced the following joint resolution; which was referred to the Committee on Banking and Currency and ordered to be printed

JOINT RESOLUTION

Authorizing the destruction of Federal Reserve notes of the series of 1928, and their replacement by Federal Reserve notes of the series of 1934, or a later series, at the expense of the United States.

Whereas Federal Reserve notes of the series of 1928 contain on the face thereof the provision "redeemable in gold on demand at the United States Treasury or in gold or lawful money at any Federal Reserve Bank"; and

Whereas, pursuant to Acts of Congress and orders and regulations issued thereunder, such Federal Reserve notes are not redeemable in gold; and

Whereas, at the suggestion of the Secretary of the Treasury made for the foregoing reasons, said Federal Reserve banks have not requested the issuance of a supply of such notes which has heretofore been prepared, or is in course of preparation; and

Whereas, pursuant to existing law, Federal Reserve banks have paid or are obligated to pay for the cost and expense incurred in connection with the printing, issuing, and retirement of such Federal Reserve notes; and

Whereas it would be just and equitable for the United States to assume the expense of substituting for such unissued Federal Reserve notes of the series of 1928, in the possession of the Federal Reserve agents and the Treasury Department of the United States, Federal Reserve notes of the series of 1934, or a later series: Now, therefore, be it

1 *Resolved by the Senate and House of Representatives*
2 *of the United States of America in Congress assembled,*
3 That, pursuant to such rules and regulations as the Secretary
4 of the Treasury may prescribe, all unissued Federal Reserve
5 notes of the series of 1928 which on the date of approval of
6 this resolution are in a physical condition to be lawfully
7 issued or reissued or which are partially completed, and which
8 are in the possession of a Federal Reserve agent or the
9 Treasury Department, shall be destroyed and, as rapidly as
10 the facilities of the Treasury Department may permit, shall
11 be replaced with an equal number of Federal Reserve notes
12 of the series of 1934, or of a later series, except that such
13 partially completed notes shall be replaced with notes in a
14 similar stage of completion. Credit for such destroyed notes
15 shall be given to the accounts of the respective Federal Re-
16 serve agents on the books of the Comptroller of the
17 Currency.

1 Notwithstanding the provisions of paragraphs 11 and
2 13 of section 16 of the Federal Reserve Act, as amended
3 (U. S. C., 1934 edition, title 12, secs. 420 and 422), the
4 United States shall pay all expenses incidental to the destruc-
5 tion and replacement of such Federal Reserve notes, which
6 expenses shall include, but shall not be limited to, the cost
7 of (a) destroying such notes of the series of 1928 herein-
8 before specified; (b) printing such Federal Reserve notes
9 of the series of 1934, or a later series; and (c) shipping
10 (including insurance and protection) any of the Federal
11 Reserve notes herein referred to.

12 There is hereby authorized to be appropriated out of the
13 miscellaneous receipts covered into the Treasury under sec-
14 tion 7 of the Gold Reserve Act of 1934 (U. S. C., 1934
15 edition, title 31, sec. 408b), by reason of the reduction of
16 the weight of the gold dollar by the President's proclama-
17 tion of January 31, 1934, such sum, not exceeding
18 \$3,000,000, as shall be necessary to carry out the purposes
19 of this resolution, which sum shall remain available until
20 expended.

JOINT RESOLUTION

Authorizing the destruction of Federal Reserve notes of the series of 1928, and their replacement by Federal Reserve notes of the series of 1934, or a later series, at the expense of the United States.

By Mr. STEAGALL

MAY 24, 1937

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