

SUGGESTED METHOD OF DEALING WITH THE SILVER PROBLEM

Purchases of silver, except as needed for subsidiary coin, should be discontinued, unless Congress wishes frankly to continue the subsidy to silver producers. In that case purchases should be limited to the output of American mines. Foreign purchases of silver cannot be justified as a subsidy, for the United States surely does not wish to subsidize foreign silver mines. They cannot be justified on monetary grounds, as has been explained in the accompanying memorandum. They disrupt our currency system, and complicate the problem of credit regulation.

In order to close the silver incident it is suggested that the Treasury issue to the Federal Reserve banks special non-circulating silver certificates covering all the silver purchases in the past five years. These certificates would be similar to the non-circulating gold certificates now issued to the Federal Reserve banks. These certificates should be in an amount sufficient exactly to cover the Treasury's outlay for silver, in other words they should cover the silver at the price paid for it. In return the Federal Reserve banks would assume the liability for the silver certificates outstanding. This procedure would involve no cost to the Treasury.

As outstanding silver certificates would come in from circulation the Federal Reserve banks would retire them and issue Federal Reserve notes to take their place. Thus gradually Federal Reserve notes would become a larger element in the circulation, which is what was intended by Congress.