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United States Senate

COMMITTEE ON APPROPRIATIONS

Washington, D. C.
March 3, 1939

Honorable Marriner S. Eccles, Chairman
Board of Governors, Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

In reading over the debates on silver in the Congressional Record of February 27 and February 28, I find the following statement on page 2867 in the remarks of Congressman White of Idaho. The Congressman states that by the issuance of silver currency "the American people are relieved of the interest charges as the cost of the issuance and circulation of this money". The Congressman continued with the following remarks:

If ~~the~~ If the eminent Republican from New York and his Republican colleague from Illinois are successful in their campaign to retire the interest-free silver certificates-- legal-tender currency--and replace them with Federal Reserve notes in the amount now outstanding--\$1,614,143,513--he will force business to pay the banks an annual interest yield of \$48,424,305,39, calculated at 3 percent; but we all know that current rates of interest are more than 3 percent. If we calculate the interest at 6 percent, then the Federal Reserve notes that would replace the silver certificates now in circulation would yield the banks \$96,848,610.78.

Now, what are these eminent gentlemen fighting for? Is it not the interest income to the banks of this country to be laid on the backs of the people by retiring the interest-free silver certificates now in circulation and replacing this money with Federal Reserve interest-yielding notes--something for these Republican gentlemen to fight for--money to come right out of the pockets of everyone every time a purchase is made from a business firm that has a note--eligible paper--made to the local bank and rediscounted by the Federal Reserve bank, on which interest must be paid if their kind of

(Answer over)

money is to remain in circulation?

Speaking of economy and Government assistance to business, these gentlemen move in mysterious ways their wonders to perform. When business is already carrying an interest load of \$282,463,796.16, computing interest at 6 percent on the \$4,707,729,936 in Federal Reserve notes, which is the bulk of our currency that is now in circulation, is not there any limit to the interest load that these eminent gentlemen would lay on the backs of the American people, when this country is already \$44,000,000,000 in debt as a result of this faulty and unworkable monetary system with which the Government and the business of this country is struggling?

I should like very much to have an analysis of these statements by Congressman White, particularly answers to the following questions:

1.- Do Federal Reserve notes involve the payment of interest on the part of the public using them and to the benefit of the banking system?

2.- Does the issuance of silver currency reduce the interest burden on the general public which uses the currency of this country?

3.- Does not the issuance of silver currency increase the interest earning capacity of the banking system?

May I have your cooperation in enlightening me on these questions as soon as possible?

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. G. ...". The signature is written in dark ink and is positioned to the right of the typed name "Sincerely yours,".

JGT:LJ

March 10, 1939.

My dear Senator:

I acknowledge receipt of your personal letter to me of March 3 in which you quote remarks of Congressman White of Idaho and ask certain questions.

Your first question is whether Federal reserve notes involve the payment of interest on the part of the public using them and to the benefit of the banking system.

The issuance of Federal Reserve notes as such does not involve interest payment any more than the issuance of any other kind of currency. A person who has a bank deposit can withdraw it in currency and does not have to pay interest; a person who has no deposit and has to borrow must pay interest on his loan, regardless of the kind of currency in which he withdraws the proceeds, or whether he leaves them on deposit and checks against them.

Your second question is whether the issuance of silver certificates reduces the interest burden on the general public.

The issuance of silver certificates in payment for silver purchases by the Treasury in no way diminishes the interest burden on the general public. It is true that if the Treasury paid for silver purchased otherwise than by issuing silver certificates it would have to increase the public debt by the amount of these payments, but that is not, I believe, what is meant by the question. There has never been a proposal that the Treasury pay for silver out of general revenues or out of borrowed funds. Aside from this, the issuance of silver certificates has no bearing whatsoever on the interest burden.

Board of Governors
Federal Reserve System

MAR 9 - 1939

Received in
Chairman's Office

Your last question is whether the issuance of silver currency increases the interest earning capacity of the banking system.

There is no connection whatsoever between the issuance of silver and the interest earning capacity of the banking system. The only connection under present conditions is highly indirect and exactly the opposite of that implied in the question. The issuance of silver certificates adds to excess reserves, and this in turn would tend to reduce interest rates were it not for the fact that they are already at the lowest level on record, and for short-term paper are at the vanishing point.

I hope that these explanations will be of help to you.

Sincerely yours,

M. S. Eccles.

Honorable J. G. Townsend, Jr.,
United States Senate,
Washington, D. C.

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United States Senate

COMMITTEE ON APPROPRIATIONS

Washington, D. C.
March 13, 1939

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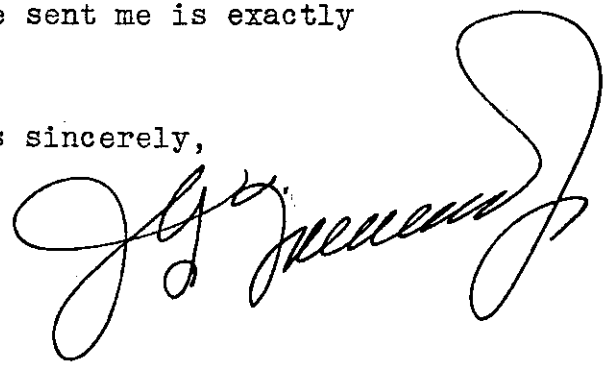
Honorable Marriner S. Eccles, Chairman
Board of Governors, Federal Reserve System
Washington, D. C.

Dear Governor Eccles:

I wish to acknowledge your letter of March 10
in reply to my communication of March 3.

The information you have sent me is exactly
what I wished.

Yours sincerely,



JGT:LJ

(over)