

G O V E R N O R S ' C O N F E R E N C E

January 20, 1934

Washington, D. C.

Morning Session

The Conference was called at the request of the Federal Reserve Board to consider the proposed Gold Reserve Act of 1934, to enable the Board to obtain the views of the Governors on that Bill, and also to confer with the Secretary of the Treasury concerning the Government's financing program.

The Conference was called to order at 10:45 o'clock a. m. with Governor Black presiding.

Present: Governor Black and Messrs. Hamlin, Miller, James, Thomas, Szymczak of the Federal Reserve Board, and Governor Calkins, Chairman of the Governors' Conference, Governors Young, Norris, Fancher, Seay, Geery, Martin, Hamilton, and McKinney. Also Acting Governors Johns and Schaller and Deputy Governor Burgess; Mr. Strater, Secretary of the Governors' Conference; and Messrs. Martin and Morrill of the Federal Reserve Board staff.

After a brief preliminary discussion, at 11:00 o'clock a. m. Secretary of the Treasury Morgenthau and Mr. Bailie entered the Conference and outlined tentative plans for the immediate program of Government financing, which was the subject of general discussion, after which the Secretary of the Treasury requested the individual views of the Governors present. All of the Governors expressed themselves as willing to cooperate to make the program a success.

At 12:30 o'clock p. m. Secretary of the Treasury Morgenthau retired from the meeting, and at 12:36 o'clock p. m. Mr. Bailie retired.

At 12:40 o'clock p. m. the Conference adjourned to reconvene at 1:45 o'clock p. m.

Afternoon Session

The meeting was called to order at 1:45 o'clock p. m. with the same attendance as at the morning session; also the Honorable Newton D. Baker, Special System Counsel, and Mr. Walter Wyatt, General Counsel; Dr. Goldenweiser and Mr. Smead of the Federal Reserve Board staff.

Governor Black reviewed previous consideration of the Gold question and referred to the hearings before the Senate Committee on Banking and Currency and to the statements which he made to that committee concerning the proposed Bill, and it appeared from the discussions which ensued that the Governors present were in accord with the position which Governor Black had taken. Governor Black then asked the Governors to consider the Bill "To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes (S. 2366 of the 73d Congress, 2d Session)".

The discussion then centered around Section 2(a) of the Bill which proposes to vest in the United States all right, title, and interest in and to any and all gold coin and gold bullion, including that held by and for the Federal Reserve banks. The general opinion was expressed by the members of the Conference that there might be some doubt of the constitutionality of that section and the question raised as to whether, if any such doubt existed, the Federal Reserve System should accept its provision as Law if passed. It was the general opinion of the Governors present that the Boards of Directors of the several reserve banks could safely be guided by

the opinion of Special System Counsel, General Counsel for the Federal Reserve Board, and Counsel for the individual Federal Reserve banks.

In response to a direct question, Mr. Baker expressed the opinion that if the Bill is passed and signed by the President, the terms of Section 2(a) should be complied with. Mr. Wyatt concurred in Mr. Baker's opinion.

The Conference then considered the suggested amendments to the Bill which had been prepared by a committee of the Federal Reserve Board and a number of the Governors on the previous day. It was

VOTED that the proposed amendments be considered and acted upon separately. Thereupon, the Conference proceeded to consider the following separate amendments:

1. Substitution for Section 2(a):

Section 2(a). In the event that the weight of the gold dollar shall at any time be reduced, an amount equal to any resulting increase in the dollar value of all gold which at the time of such reduction is owned by the Federal Reserve banks, including that pledged with the Federal Reserve Agents and that held for the Federal Reserve banks by the Federal Reserve Board and the Treasury, shall be paid to the Treasurer of the United States as a franchise tax. Such franchise tax shall be covered into the general fund of the Treasury. In the event that the weight of the gold dollar shall at any time be increased, the Treasurer of the United States shall pay to the Federal Reserve banks an amount equal to any resulting decrease in the dollar value of all gold which at the time of such increase is owned by the Federal Reserve banks, including that pledged with the Federal Reserve Agents and that held for the Federal Reserve banks by the Federal Reserve Board and the Treasury. Such payments to the Federal Reserve banks shall be made out of the general fund of the Treasury and there is hereby appropriated an amount sufficient to provide for such payments. All gold held by the Federal Reserve banks may be counted as reserves against outstanding Federal Reserve notes or as reserves against deposit liabilities and may be used as security for Federal Reserve notes and for all other purposes for which gold certificates may be used.

The Conference voted unanimously to approve this amendment.

In the event the preceding amendment, providing a substitution for Section 2(a) is not acceptable, the following amendment was suggested in Section 2(a) as it appears in the Bill:

2. The sentence on page two, beginning with line six and ending on line nine and reading as follows "Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine" be amended to read "Balances in such accounts shall be payable in gold certificates, which shall be in such denominations, not exceeding \$1,000,000, as the Secretary of the Treasury may determine".

The Conference voted unanimously to approve this amendment.

3. Section 3, which ends on line seven, page nine, of the Bill be amended by adding the following sentences: "This section shall have no effect after the expiration of the existing National emergency", and that Section 4 be amended by adding after the word "custody" on line ten, page nine, the following "during the existing National emergency".

The Conference voted unanimously to approve this amendment.

4. Section 6 of the Bill, which reads as follows on page ten, lines five, six, seven, and eight, "Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval of the President, no currency of the United States shall be redeemed in gold" be amended to read as follows: "Except as provided in Sections 3699 and 3700 of the Revised Statutes, as amended, no currency of the United States shall be redeemed in gold"; and that there be inserted on line fifteen of the same page after "1890" the following "shall be maintained in gold bullion equal to the dollar amounts required by law"; that the words "of such certificates" be substituted for the words "required by law" on line eighteen of page ten; and that there be inserted between the words "in" and "gold" as appearing on lines nineteen and twenty of page ten the words "gold or"; and that the section be further amended by striking out lines twenty-three and twenty-four on page ten and lines one and two on page eleven.

The Conference voted unanimously to approve the amendments to this section.

5. That Section 8 be amended by adding the following sentence on line seven, page twelve: "After the termination of the existing National emergency, the Secretary of the Treasury shall purchase all gold offered to him for sale and shall pay for it in an equivalent amount of lawful money".

The Conference voted unanimously to approve this amendment.

6. That beginning with line nineteen on page twelve, after the word "however" the following words on that line and on lines twenty, twenty-one, twenty-two, and twenty-three be stricken from the Bill and the following substitution made therefor: "That, after the termination of the existing National emergency, the Secretary of the Treasury and the Federal Reserve banks, under regulations prescribed by the

Secretary of the Treasury, shall sell gold bullion for equivalent amounts in lawful money, if the gold is required (a) for non-monetary domestic use not including hoarding, or (b) for exportation".

The Conference voted unanimously to approve this amendment.

7. That Section 10(a), beginning with line twenty-four, page twelve, and extending through line six on page thirteen, reading as follows: "Section 10(a). For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange, and such other instruments of credit or security as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President" be amended to read "Section 10(a). For the sole purpose of stabilizing the foreign exchange value of the dollar, the Secretary of the Treasury, the Governor of the Federal Reserve Board, and one other person designated by the President, shall constitute a Stabilization Committee, which, until the termination of the existing National emergency, shall have the powers and duties conferred by this section. Said committee, directly or through such agencies as it may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange, and such other instruments of credit or security payable in foreign countries or foreign currencies, as it may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President".

The Conference voted unanimously to approve this amendment.

8. That the words "Stabilization Committee" be substituted for the "Secretary of the Treasury" on line seven, page thirteen; that the words "said committee" be substituted for the words "Secretary of the Treasury" on line fourteen, page thirteen; and that lines eighteen to twenty-four inclusive and the first three words on line twenty-five be stricken out of the Bill and the following substituted therefor: "said committee and in its discretion, for the sole purpose of stabilizing the exchange value of the dollar in relation to foreign currencies: Provided, however, That any portions of the fund which, in the judgment of the said committee are not currently required for such purpose may be invested and reinvested

in direct obligations of the United States".

The Conference unanimously approved this amendment.

9. That the words "of its present weight" on lines twelve and thirteen of page fourteen be stricken from the Bill and the following substituted therefor: "or less than 50 per centum of the weight, twenty-five and eight-tenths grains, nine-tenths fine, fixed by Section 3511 of the Revised Statutes, and Section 1 of the Act of March 14, 1900; Provided, That nothing in this section shall be construed as prohibiting the President from changing from time to time the weight of the gold dollar within such limits".

The Conference unanimously approved this amendment.

10. That there be inserted between the words "gold certificates" and "silver certificates" on line six of page fifteen the following: "(including those issued to Federal Reserve banks under the provisions of this Act)" and that the following sentence be added at the end of line twenty-three of page fifteen: "For the purposes of this Act and Sections 3697 and 3700 of the Revised Statutes as amended by this Act, the existing National emergency shall be deemed to have terminated when the President shall have declared by proclamation that the emergency recognized by the President by proclamation of March 6, 1933 has terminated; and the provisions of Sections 3 and 10 of this Act shall not thereafter have any effect".

The Conference unanimously approved this amendment.

It was the sense of the Conference that approval of the suggested amendments to Bill S. 2366 was to be considered as an expression of opinion on the part of the Conference, and to be presented to the Federal Reserve Board to be used in its discretion.

At 4:45 o'clock p. m. Mr. Baker left the Conference.

The Secretary of the Treasury, during the morning session, requested the Conference to consider the advisability of giving a statement to the Press regarding the attitude of the Federal Reserve System toward

the Government financing program, and it was

VOTED that the following statement be approved:

"A Conference of Governors of the reserve banks was held today at which there was full consideration of the present financing program of the Government, and full cooperation with this plan was accorded to the Treasury by the Governors".

It was further

VOTED that Governor Black convey this statement to the Secretary of the Treasury, and that Governor Black be authorized in his discretion to give the statement to the Press.

Shortly after the opening of the afternoon session, Deputy Governor Burgess left the Conference to appear as a witness before the Senate Committee on Banking and Currency, and returned to the meeting at 4:05 o'clock p. m.

Adjourned at 5:00 o'clock p. m.