The Papers of Charles Hamlin (mss24661)

368_07_001-	Hamlin, Charles S., Scrap Book – Volume 249, FRBoard Members

205.001 - Hamlin Charles S
Scrap Book - Volume 249
FRBoard Members

Box 368 Folder 7

TRANSFER

CONFIDENTIAL (F.R.)

RETURN TO
FILES SECTION
DO NOT REMOVE ANY
PAPERS FROM THIS FILE

CONFIDENTIAL (F.R.)

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 12, 1941

To The Files

Subject:

From Mr. Coe

MPC.

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from volume 249 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 249

Page 9
Memo to Gov. Black from Mr. Smead re Devaluation of the Dollar and the Federal Reserve System.

Page 25
Governor Black's revised memo to President.

Page 37
Memo re transfer of gold. (Tentative draft)

Page 67
Memo to Mr. Hamlin from Mr. Smead re Exchange and transfer drafts.

Page 138
Earnings and Expenses of F.R. Banks, December 1933.

Sec Bd

November 23, 1933

Governor Black

Mr. Smead

Devaluation of the dollar and the Federal Reserve System

In view of the authority possessed by the President to reduce the gold content of the dollar at any time by as much as 50 percent and the growing probability that the dollar will be devalued by the exercise of that authority, perhaps in the near future, the subject of the effect thereof upon the Federal Reserve System has come to be of vital concern.

At the present time our monetary gold stock amounts to $4,322,000,000, which would be increased to $7,203,000,000 if the gold content of the dollar were reduced to 60 percent of the present statutory weight, corresponding roughly to the present exchange value of the dollar. At this valuation our gold stock would exceed by about $1,960,000,000 the amount of money in circulation at the present time, exclusive of subsidiary silver and minor coin. In other words, we could retire all the Federal Reserve notes, Federal Reserve Bank notes, national bank notes, United States notes, gold certificates, silver certificates, gold coin and silver dollars in circulation, replace them with gold coin of the new weight or with gold certificates based on the devalued gold dollar and have a reserve stock of gold remaining in the amount of $1,960,000,000.

Bearing in mind also the fact that our gold stock at its present valuation is equal to more than 80 percent of our total circulation, exclusive of subsidiary silver and minor coin, it is evident that the addition of $2,880,000,000 to the value of our gold stock, that would result from a 40 percent devaluation of the dollar, would give this country an additional fund of gold in that amount not needed for monetary purposes and which would have to be held by someone as a nonproductive asset. The possible holders of this gold are three, i.e., (1) the United States Treasury, (2) the Federal Reserve

P 9

Banks, and (3) member and nonmember banks.

That the Treasury would hold any substantial portion of this immense sum of idle gold is, of course, quite inconceivable, especially in view of the current heavy requirements of the Treasury for funds to finance unusual Governmental activities. The Treasury might, however, it would seem be willing to carry a 100 percent gold reserve against United States notes, which would absorb about $190,000,000 of gold.

If the Reserve Banks were permitted to retain the profit realized from the revaluation of their own gold holdings (which it is taken for granted they will not, unless perhaps in connection with the adoption of a "commodity dollar"), they could carry the increased gold reserves with no other embarrassment than that of a striking increase in their surplus accounts; but if the Reserve Banks do not share in the profit derived from the revaluation of the gold stock, the thrusting upon them of such an amount of unproductive gold would have very serious consequences. Assuming that the Treasury deposited with the Federal Reserve Banks its profits of $2,880,000,000 or so resulting from the devaluation of gold it would then be in position to draw on the balances thus created in meeting its obligations.

The paying out of these funds by the government in ordinary course in defraying current expenses or redeeming government securities held by the public would transfer them to member bank reserve account, since the government checks would be deposited with member banks who in turn would deposit them with the Reserve Banks. This would expand excess reserves of member banks from the present unprecedented level of $850,000,000, to the fantastic total of something like $3,700,000,000. The inevitable result would be tremendous pressure upon the Reserve Banks to dispose of their government securities and thereby enable member banks to reduce their excess reserves to more normal proportions. If the Reserve

Banks complied they would be virtually, if not completely, bereft of earning assets, as they would also be if the Treasury instead used the funds in the direct purchase from the Reserve Banks of the government securities held by them. Earnings of the Reserve Banks would naturally decline almost, if not quite to the point of extinction and the continued existance of the Federal Reserve System would be endangered through inability to cover expenses. But there would also be the even more serious result of depriving the Reserve Banks of any means of credit control, whether or not they retained a substantial volume of government securities, unless there was an export movement of gold on such a tremendous scale as to wipe out excess reserves of member banks and put member banks in debt for substantial amounts to the Federal Reserve Banks. The existence of excess reserves of member banks in such amount as would result from the paying out by the government of the profit (approximately $2,880,000,000) realized from the revaluation of gold would tend to cheapen credit in this country and consequently to produce an export movement of gold. Any gold exports due to this cause would, of course, cease when excess reserves of member banks were reduced to a normal level.

Member and nonmember banks cannot be expected to hold in their vaults as a nonproductive asset any substantial portion of the increase in the country's monetary gold stock resulting from the revaluation of gold, even if they were not deterred from doing so by the risk of loss by robbery or otherwise. There are, however, a number of means whereby member and nonmember banks could be forced to assume at least a part of the burden that would otherwise fall on the Reserve Banks. Among these is the building up of excess reserves of member banks, and some increase in even the present large excess reserves obviously would not be dangerous under existing conditions. To force member banks to carry large excess reserves under any and all conditions, however, would be to surrender any possibility of exercising any restrictive influence on credit expansion and to furnish member banks a powerful incentive to launch into credit expansion on an unprecedented scale at the very time, perhaps, when changed conditions called for restraint. Another means of shifting a part of the burden to the banks would be to induce all, or substantially all, nonmember banks to join the Federal Reserve System. All nonmember banks, other than mutual savings banks, in the country have about $6,000,000,000 of deposits, which would call for reserve balances of about $300,000,000 with the Reserve Banks if they became member banks. Mutual savings banks have deposits of about $9,600,000,000, which at the rate of 3 percent applicable to time deposits would call for reserve balances with the Reserve Banks in the amount of $288,000,000. Accordingly, bringing all nonmember banks into the System would take care of perhaps $600,000,000 of the around $2,880,000,000 of excess gold. The most prompt and effective means, though one that perhaps could not be resorted to without arousing a considerable amount of opposition, would be to increase member bank reserve requirements. For example, a 40 percent increase in the reserve requirements would result in increasing required reserves for present membership by about $720,000,000. There remains the possibility of retiring the about $750,000,000 of national bank notes in circulation.

If all of the above suggestions, which are tabulated below, were adopted the System would no doubt be able to function measurably satisfactorily even with a 40 percent devaluation of the dollar.

Increase the gold reserve against U. S. notes to 100 percent	$190,000,000
Retire national bank notes	750,000,000
Increase required reserves:	
(a) By admission to membership of nonmember banks (75 percent of the estimated maximum)	450,000,000
(b) By increase of 40 percent in legal reserve requirements of new and present membership	900,000,000
Decrease earning assets of the Reserve Banks	590,000,000
Total	$2,880,000,000

If, however, excess reserves of member banks were allowed to fall to the normal level of around $150,000,000, there would be a further decrease in earning assets of the Reserve Banks of about $700,000,000 in addition to the $590,000,000 indicated above, which would thereby reduce earning assets from $2,500,000,000 as at present to about $1,200,000,000, or to approximately the amount required at 3 percent to cover operating expenses, losses, and dividends. The immediate effect upon the Federal Reserve Banks, even without any decrease in excess reserves of member banks, could scarcely fail to be a reduction in earning assets of much greater magnitude than the $590,000,000 assumed in the above illustration, and the Reserve Banks might find it necessary to make up for the consequent reduction in their earnings, so far as possible, by discontinuing the printing of Federal Reserve currency with a gradual substitution for Federal Reserve notes in circulation of gold certificates, by obtaining full reimbursement, so far as practicable, for all services rendered the Government, and by charging member banks for some of the free services now performed for them. In the above illustration no allowance is made for a possible reduction in money in circulation, (money in circulation now amounts to $5,666,000,000, compared with $4,929,000,000 at the end of November 1929), or for the importation of gold either of which, other things being equal, would result in a corresponding further decrease in Reserve Bank earning assets.

Of course, if the dollar were devalued less than 40 percent or if there were a substantial export of gold, perhaps partly as the result of an agreement with one or more foreign countries in connection with the stabilization of the dollar, the situation would be more favorable from the standpoint of the Federal Reserve System.

ERG
24

COPY

Gov Black — Sec Bd — Aug. 24, 33

Revised memo. to President

In event, first, the President should write the Board with respect to the plan embracing action under the Thomas amendment and the placing of title to the gold holdings of the Federal Reserve System in the Treasury so that profits on that gold would accrue to the Government if, as and when devaluation is effected; and, second, if the Secretary of the Treasury should requisition the gold holdings of the Federal Reserve System under Section 11 (n) of the Federal Reserve Act and should offer gold certificates in payment of such gold holdings, then the Federal Reserve Board feels:

(1) That it should express its strong conviction that appropriate legislation by Congress should be had covering this question of profits upon the gold holdings of the Federal Reserve System, although it is of opinion that this profit, being the result of the monetary policy of the Government, should ultimately go to the Government.

(2) That neither the Federal Reserve Banks nor the Federal Reserve Agents can enter into voluntary agreement covering the transfer of the title in this gold to the Government because of their responsibility as officers and directors of the Reserve Bank and of their trusteeship in connection with their duties as such, and

(3) That if demand is made by the Secretary of the Treasury under Section 11 (n) of the Federal Reserve Act for the gold holdings of the Federal Reserve System, then the Federal Reserve Banks and the Federal reserve agents should yield possession of the gold to the Treasury or its representatives and receive any gold certificates tendered to them, but only under protest fully preserving all legal rights.

VOLUME 249
PAGE 25

It was the informal opinion of those present, after consideration of the report which Governor Black gave to the meeting, and in the absence of opportunity to discuss the various questions presented with our various directors, that in the event of legal devaluation of the dollar, the profit on all gold held by the Federal reserve banks and the Federal reserve agents should preferably go to the Government of the United States, provided a sufficient margin of the profit so resulting should be reserved to the Federal reserve banks in order adequately to protect them in the full discharge of all their obligations.

In reaching this conclusion, however, we feel it is important to point out that in the interest of the Federal reserve banks, the member banks and the public, any steps taken to give this profit to the Government should in our opinion definitely avoid divesting the Federal reserve banks, even temporarily, of their title to gold held by them as reserve against their notes or their deposits.

We are of the opinion that any procedure which even in the slightest degree disturbs the confidence of the public in the integrity of the position of the Federal reserve banks or the sanctity of their gold reserve will probably result in a banking crisis the extent of which it is difficult to estimate. In these circumstances we believe that there is the gravest risk to any plan of action, designed to give to the Government the gold profit resulting from devaluation, which is based on the hypothesis that the title to all gold held in the reserves of the Federal reserve system is to be transferred to the Treasury, leaving title to no gold in the Federal reserve banks. The Governors, in the short time available today to study the question, see no way by which the profit of gold resulting from devaluation can be transferred to the Government without the serious threat to public confidence in our banking system, except by appropriate Congressional action which at the same time provides for the protection of the necessary gold reserve against the obligations of the Federal reserve banks.

In the event the Government decides that Congressional action is inadvisable or inappropriate but that the profit should be given to the Government by other means, we are of the opinion that no steps can be taken by the Federal reserve banks except by action of their respective boards of directors. Having in mind the importance of a thorough exploration of the various possibilities presented today for our consideration, we are arranging for meetings of our respective directors on or before next Wednesday.

Copy

Celebrants new memorandum in reply to tentative suggestion of Atty Gen & Board

TRANSFER OF GOLD

Dec 29, 33

(1) All gold coin, bullion and certificates received from others by the Federal Reserve Banks or Branches since March 4, 1933 (except in settlement of foreign balances) shall be turned over to the Treasury immediately and unconditionally; and payment therefor will be made in any coin or currency dollar for dollar or at $20.67 per ounce as the case may be.

(2) The Federal Reserve Banks, Branches and Agents will forthwith transfer (subject to the condition subsequent mentioned in (4) below) to the Treasury, possession of, and title to, all other gold coin or bullion owned by them or on deposit with the United States, and will receive therefor gold certificates at the rate of $20.67 per ounce.

(3) All gold certificates by whomever held shall be deemed and treated by the Treasury as dollar obligations so that no profit or loss will accrue to any holder thereof as a result of any change in the gold content of the dollar; and they will be secured at all times by 100 per cent deposit of gold pledged as collateral therefor.

(4) Should the forthcoming session of Congress adjourn without ratification of the transfers above mentioned, and of any change in the gold content of the dollar theretofore made, the absence of such ratification shall operate as a condition subsequent to the transfer mentioned in (2) above, revesting title to the gold so transferred, except as to that portion of such gold as is attributable to profits resulting from any such devaluation; and possession of such gold will be surrendered by the Treasury upon the surrender of the gold certificates received in payment therefor.

(5) Upon devaluation so much of the gold as is not attributable to profits therefrom will be returned to the Federal Reserve Banks but without agreement express or implied that such gold will not later be called into the Treasury.

(6) Such administrative acts and recommendations to the Congress as may be necessary for carrying out the foregoing arrangements will be made at the appropriate time.

12/28/33

B37

COPY

A statement of the things not covered therein may serve to sharpen the outlines of the tentative plans sketched on the accompanying sheet.

This plan does not extend to any of the following matters:

(1) The gold status of any gold certificates or the present or future redemption of any gold certificates.

(2) Any plan for having the gold representing the profit resulting from devaluation returned to the Federal reserve banks or agents in event of devaluation without Congressional ratification.

(3) Any plan for special treatment of any particular body of gold corresponding to any particular group of gold certificates.

(4) Any items in any program for legislation relative to the general monetary system, except, of course, the legislative ratification mentioned on the accompanying sheet.

12/28/33.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Sec Bk

Date January 10, 1934

To Mr. Hamlin

Subject: Exchange and transfer drafts

From Mr. Smead

SRS

Mr. Morrill advises me that you would like to have for your records, definitions of "exchange drafts" and "transfer drafts" and illustrations of their practical use.

As stated in the memorandum inclosed with Board's letter X-102 of April 25, 1917, the nature of these drafts is as follows:

> A Federal Reserve transfer draft is drawn by a member bank on its own Federal Reserve bank and is payable on advice of the drawee bank at any Federal Reserve bank specified in the draft. The minimum amount for which transfer drafts may be drawn is $250. (Discontinued Jan. 1, 1934)
>
> A Federal Reserve exchange draft is drawn by a member bank on its own Federal Reserve bank and is receivable for immediate availability at par at any Federal Reserve bank, although actually payable only at the drawee Federal Reserve bank. The maximum amount for which exchange drafts may be drawn is $50,000.

Federal Reserve exchange drafts afford member banks a method by which they may use their accounts with the Federal Reserve banks for exchange purposes, as such drafts are the equivalent of exchange on any city in which there is a Federal Reserve bank or branch. It is understood that Exchange drafts are largely used when some individual wishes to purchase from a country bank, exchange payable at some point at which the bank has no correspondent. In view of the fact that Exchange drafts are subject to immediate availability, the Federal Reserve banks have adopted the practice of granting the privilege of drawing such drafts only to member banks whose applications for the privilege have been approved by them.

VOLUME 249
PAGE 67

P 67

Federal Reserve transfer drafts, the use of which was abolished on January 1, 1934, could formerly be drawn by a member bank on the Federal Reserve bank in its district payable at any one other Federal Reserve bank designated in the draft. Payment by the other Federal Reserve bank, however, was made only upon advice from the drawee bank. A member bank drawing such drafts was required to advise its Reserve bank thereof each day, by mail, giving the numbers of the drafts, the individual amounts, and the totals payable at each Federal Reserve bank. An advice was also forwarded by the member bank to the Federal Reserve bank at which the drafts were made payable. The drawee Reserve bank, upon receipt of the advice, charged the total to the account of the drawing member bank and telegraphed the Federal Reserve bank at which the drafts were made payable, confirming the advice furnished by the member bank. The use of Federal Reserve transfer drafts (also of Federal Reserve exchange drafts) was inaugurated in 1917, prior to the establishment of the wire transfer system, and at that time proved a fairly satisfactory method of transferring bank balances. Since the privilege of making free telegraphic transfers of funds has been extended to member banks, Federal Reserve transfer drafts have had little or no practical use.

CONFIDENTIAL
Not for publication

B-811

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, DECEMBER 1933
(PRELIMINARY)

Federal Reserve Bank	Month of December 1933									January - December 1933		
	Earnings from -					Current expenses		Current net earnings		Current net earnings		
	Dis-counted bills	Pur-chased bills	U.S.Govt. securi-ties	Other sources	Total	Exclusive of cost of F.R. currency	Total	Total	Ratio to paid-in capital	Total	Ratio to paid-in cap-ital	Less accrued dividends and net charges (current) to profit and loss
									Per cent		Per cent	
Boston	$11,869	$8,908	$238,968	$4,963	$264,708	$164,459	$176,135	$88,573	9.6	$699,851	6.5	$138,441
New York	98,335	4,162	1,339,998	60,028	1,502,523	510,337	558,816	943,707	19.0	10,471,579	17.9	7,664,856
Philadelphia	287,815	3,268	258,709	3,633	553,425	172,339	197,624	355,801	26.3	2,077,690	13.1	1,214,555
Cleveland	26,125	4,684	321,771	9,248	361,828	236,834	248,668	113,160	10.8	1,789,791	13.6	1,072,157
Richmond	17,634	1,710	118,502	18,046	155,892	126,811	130,737	25,155	6.0	154,573	3.0	-136,015
Atlanta	25,806	1,856	107,848	3,129	138,639	105,460	113,016	25,623	6.8	365,230	7.8	109,391
Chicago	12,718	5,170	617,911	18,661	654,460	238,603	257,239	397,221	36.4	2,910,545	20.4	2,384,184
St. Louis	3,764	1,850	141,860	21,800	169,274	115,348	120,618	48,656	14.4	155,825	3.8	-74,214
Minneapolis	4,958	1,457	110,790	8,485	125,690	92,534	98,313	27,377	11.2	383,575	13.4	235,751
Kansas City	13,029	1,912	127,800	24,362	167,103	139,070	153,136	13,967	4.0	19,144	.5	-224,044
Dallas	2,847	2,255	111,423	877	117,402	99,294	104,808	12,594	4.0	30,478	.8	-178,905
San Francisco	6,268	5,283	251,241	11,192	273,984	205,851	213,527	60,457	6.7	1,206,200	11.4	583,173
TOTAL												
Dec. 1933	511,168	42,515	3,746,821	184,424	4,484,928	2,206,940	2,372,637	2,112,291	17.1			
Nov. 1933	303,230	4,434	3,510,901	120,166	3,938,731	2,202,688	2,377,319	1,561,412	13.1			
Dec. 1932	802,087	119,658	2,318,037	161,801	3,401,583	2,175,456	2,262,592	1,138,991	8.9			
Jan.-Dec. 1933	9,137,038	1,238,068	37,529,872	1,582,340	49,487,318	26,718,007	29,222,837	20,264,481	13.7	20,264,481	13.7	12,789,330
1932	17,881,057	2,785,213	26,923,570	2,428,977	50,018,817	25,185,565	26,291,381	23,727,436	15.3	23,727,436	15.3	13,032,000

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
JANUARY 24, 1934.

P138