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Statement of Wm. McC. Martin, Jr.
Chairman, Board of Governors of the Federal Reserve System
before the
Subcommittee on Federal Reserve Matters
of the Senate Committee on Banking and Currency
March 29, 1954.

Of the four bills now before this Committee, the one on which I should like particularly to comment is S. 2332. This is a bill, as the preamble states, "To resume the redemption of currency in gold in order to restrain further deterioration of the dollar and to curb further inflation. . . ."

Section 2 describes the measure as one to strengthen confidence in the dollar, to minimize inflationary pressures, to protect holders of savings bonds, owners of savings deposits and insurance policies, and those dependent upon pensions, fixed salaries, or wages.

I have frequently referred to the role of the Federal Reserve System as that of a trustee. Its cardinal purpose is to help safeguard the dollar. Therefore, I would of course subscribe wholeheartedly to the worthy objectives stated in S. 2332. But as the members of this Committee know, there is no magic formula and no simple device for achieving these goals. Confidence in the dollar rests upon a complex of important factors of which monetary as well as fiscal policies are an indispensable part. In performing its role as a trustee, the Federal Reserve System's objective is to do what it can not only to prevent inflation, but also to prevent deflation. That is why we have traveled from a policy of monetary restraint when inflationary pressures threatened early in 1953 to a policy of active ease which has prevailed now for many months.

As I see it, the question before this Committee is this: Is it desirable to enact legislation at this time to establish redeemability in gold now, or, as Section 11 proposes, one year after the date of enactment of this bill?

It is an easy and familiar tactic to say, "Well, this is not the time," if you are against some measure but do not want to say so frankly. I do not think this is the time for this measure, but I would not go so far as to say there will never be a time when it might be desirable. My reason for thinking this is not the time is simply that I would see no advantage to be gained, no need for further safeguards, now. There is universal confidence in the dollar. Its value is not being further eroded. That threat does not hang over us today. I would see no good reason for disturbing the present situation by taking this step now, and I would prefer not to take it. As I indicated, I can conceive of a situation in which it might be a definite reassurance. If the country's solvency were in question, if we were witnessing a flight from the dollar, then it might help to regain confidence by making the dollar redeemable in gold as part of a program of fiscal and monetary reformation. There might be other occasions when this measure would be an added reassurance in the minds of enough people to make it so--regardless of its inherent merits or demerits. Manifestly, the situation would be entirely different if the world were at peace, if the fears that now haunt it were banished, and if there were no iron curtains.

No doubt this step at this time would entail risks. It is for the Committee to evaluate them. Certainly it is worth while to take risks, even serious ones if necessary, to safeguard the country from even greater dangers. But there is no danger, present or prospective, that this measure would avert. I cannot see how the universal confidence that exists today would be enhanced by this measure at this time. Under these circumstances, it seems to me that it is not worth while to take the risks.

I need not assure you that the Federal Reserve System will continue to do all that it can to minimize inflationary pressures on the upside and deflationary pressures on the downside. That is the goal we all seek.

It seems to me that you have to decide whether you want S. 2332 before you can decide whether you also want the bills numbered S. 13 and S. 2364 which contemplate the holding of gold for the public and the establishment of a free gold market in the United States. The other measure before you, S. 2514, in effect proposes the reintroduction of the bimetallic standard. I can discover nothing in the history of our experience with national bimetallism to justify the adoption of such a measure.