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Statement of
Wm. McC. Martin, Jr., Chairman,
Board of Governors of the Federal Reserve System,
before the
Senate Committee on Banking and Currency,
on H. R. 5389

April 29, 1963

I appear today in response to your invitation to present the views of the Board of Governors of the Federal Reserve System with respect to H. R. 5389, which would repeal the silver purchase laws and provide for replacement of silver certificates with Federal Reserve notes.

The Board believes that it is unnecessary to utilize silver as "backing" for our currency, and that its use could appropriately be confined to coinage. There is no need, therefore, to retain the silver purchase provisions that would be repealed by H. R. 5389. As a practical matter, these provisions are inoperative today, because of the rise in the market price of silver.

The Board favors the proposed amendment in section 3 of the bill, which would authorize issuance of Federal Reserve notes in $1 and $2 denominations in addition to the denominations now authorized.

Although the Board is not in a position to comment on the technicalities of the bill's tax provisions, we perceive no objection in principle to repealing the tax on transfers of silver bullion.

If this bill is enacted, it is important that the resulting shift from silver certificates to Federal Reserve notes take place gradually. Roughly $2 billion in silver certificates are outstanding. A complete shift of this amount to Federal Reserve notes would reduce the

Treasury's free gold stock by $500 million, because of the 25 per cent gold certificate reserve requirement on Federal Reserve notes. I am pleased, therefore, to note Secretary Dillon's estimate that the increase in the required gold certificate reserve resulting from the retirement of silver certificates and their subsequent replacement with Federal Reserve notes should not exceed $35 million a year.

Although some concern has been expressed that removing the silver "backing" from part of our currency might lower its value, I would not agree. The fact is that the stability or instability of prices in our economy does not depend on the amount of silver in the Treasury. The relatively small part of our total money supply represented by silver certificates does not derive its value from the silver the Treasury must hold as "backing" for the certificates. Throughout the history of the silver purchase laws that this bill would repeal, the dollar has been worth more than the silver in it. This is still true today, even after the recent steady rise in the market price of silver. So it would seem that public acceptance of silver certificates must rest on their appraisal of factors apart from the silver "backing." This is further demonstrated by the fact that the public accepts Federal Reserve notes as readily as silver certificates. About $30 billion of Federal Reserve notes are in circulation--fifteen times the amount of silver certificates circulating.

It is possible, of course, that the market price of silver could rise above its monetary value if the Treasury's supply of free silver should ever be exhausted. If this bill is not enacted, the Treasury must continue to issue silver certificates to meet the public's need for $1 bills.

Under those circumstances, if the market price of silver went high enough to encourage the public to turn in silver certificates for silver dollars, to be melted down for metal, the Treasury would be faced with the impossible task of trying to meet the public's need for $1 bills by issuing a certificate that would be exchangeable for dollar coins containing more than a dollar's worth of silver. Consequently, silver certificates would soon be returned from circulation. This would not only add significantly to the operating costs of the mints and the Federal Reserve Banks, but would also thwart, rather than serve, the public's need for a stable medium of exchange.

Unlike gold, the Treasury's stock of silver cannot be used to maintain the role of the dollar as a key international currency, because silver is not a readily acceptable means of settling our accounts with other countries. Offhand, one might suppose it would bolster the value of our currency to keep a valuable commodity such as silver in the stockpile of Government assets. But without this bill, the Treasury sooner or later will be forced to buy more silver for silver certificates, in competition with other buyers who seek it for other uses. It can hardly be supposed that the Government will find itself in a sounder financial position for having been forced to acquire an asset by simultaneously adding an equal amount to its debt, as would occur under these circumstances. Furthermore, Treasury purchases of silver would aggravate our international payments deficit, inasmuch as domestic silver production falls short of industrial consumption in the U. S.

There is no point now in renewing the historic controversy over the desirability of the silver purchase program as a means of assuring a favorable price to producers of silver. Today, because our economy has many other uses for this metal, its market price is well above that guaranteed by the silver purchase laws. The time seems ripe to take this step toward a free market in silver.