The Papers of Eugene Meyer (mss52019)

119_07_001-	Subject File, Federal Reserve Board, Bill Draft – Price Stabilization, 1931

EUGENE MEYER

SUBJECT FILE

FEDERAL RESERVE BOARD
[redacted] — PRICE STABILIZATION
BILL DRAFT 1931

Fisher, Irving

Oct. 26, 1931 VII

TENTATIVE DRAFT OF THREE BILLS (A, B and C)

(with comments)

FOR STABILIZING THE PRICE LEVEL

Bill A, Emergency Measure and Bills B & C to be Considered Later

BILL "A"

A BILL

DIRECTING THE FEDERAL RESERVE SYSTEM

TO RESTORE TO NORMAL

AND TO STABILIZE

THE GENERAL LEVEL OF COMMODITY PRICES

SO FAR AS POSSIBLE BY MONETARY AND CREDIT MEANS; OR TO ADJUST THE SUPPLY OF MONEY AND CREDIT TO THE REQUIREMENTS OF THE VOLUME OF TRADE WORKING IN COOPERATION WITH AN INTERDEPARTMENTAL COMMITTEE ON PRICE INDEXES, THE CENSUS BUREAU, THE BUREAUS OF FARM ECONOMICS, MINES, FOREIGN AND DOMESTIC COMMERCE, LABOR STATISTICS, etc.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.

GENERAL PROVISIONS

Section 1. The Act approved December 23, 1913, known as the Federal Reserve Act, as amended, is hereby further amended as follows: Add to section 14 the following paragraphs:

"(g) The term 'Federal Reserve System', as used in this Act, shall mean the Federal Reserve Board, the Federal Reserve Banks, and all committees, commissions, agents, and others under their direction, supervision, or control.

"(h) The Federal Reserve System shall, as conditions make them suitable, use in its monetary and credit policy all the powers now or hereafter possessed by it, in order to effect the following purposes:

(1) to raise the general level of commodity prices to such a level as will be most beneficial to business and general public welfare.

(2) thereafter to prevent that price level from fluctuating, so far as possible.

"(i) Such monetary and credit policy shall include

(1) open market operations, that is, buying and selling eligible bills and securities;

(2) buying and selling gold or gold certificates in exchange for federal reserve notes or other funds (the price of gold being $20.67 per oz. of pure gold, i. e. one dollar per 23.22 grains of pure gold);

(3) adjustment of rediscount rates;

(4) adjustment of gold reserve ratios of Federal Reserve Banks as hereinafter prescribed;

(5) advice to member banks and non-member banks, with the object of securing their cooperation in stabilization policy, including, especially adjustment of discount rates to customers, open market operation

and rediscounts with Federal Reserve banks when needed to add to "free gold."

(6) relations, consultation, cooperation, and lawful transactions with non-American banks, including the Bank for International Settlements at Basle known as the World Bank;

(7) statistical studies;

(8) publicity; and

(9) all other activities permitted under this Act and suitable for the purpose of controlling or influencing the general level of prices through monetary and credit policy.

"(j) Whenever any important decision as to monetary or credit policy is taken by the Federal Reserve System tending to effect the aforesaid purposes, such decision or action, with reasons therefor, shall, with reasonable promptitude, be reported by the Governor of the Federal Reserve Board to the press through its usual Washington correspondents in the usual way, and in such detail as may be deemed by him to be most effective for advising the public of the same."

PRICE INDEXES

Section 2. (a) An Interdepartmental Committee on Price Indexes, with not less than -- nor more than -- members, such as the present informal organization commonly so designated, shall be constituted by the Federal Reserve System and shall consist of statisticians representing those Departments and Bureaus of the Federal Government which compile and publish price statistics.

(b) It shall be the duty of the Interdepartmental Committee on Index Numbers, in cooperation with the Bureau of Standards, after careful study of the problems of measuring price changes and the best methods of constructing an Index Number for measuring the General Level of Commodity Prices, to decide upon the best methods for computing the Official Price Index Number (or Index Numbers) of the United States. The types of price series to be used, the methods of weighting the prices, and the formula for constructing the Index (or Indexes) and other technical details shall be determined by the said Interdepartmental Committee on Price Indexes.

(c) At the direction of said Interdepartmental Committee the quotations of prices which are to be used in constructing the Official Price Index Number shall be collected by the Census Bureau, the Bureau of Farm Economics, the Bureau of Mines, the Bureau of Foreign and Domestic Commerce, the Bureau of Labor Statistics, and the several other Bureaus or agencies of the government which are best equipped and best fitted by function and by experience to collect them quickly and accurately in all important commercial centers. (See Note 1.)

(d) It shall be the duty of said Interdepartmental Committee to compute the Official Price Index Number (or Index Numbers) from the data on prices and quantities furnished by the collecting Bureaus and agencies above mentioned, according to the methods and formulas approved by it.

(e) Said Interdepartmental Committee is hereby authorized and directed, as promptly as possible, at short intervals to publish, and transmit to the Federal Reserve System its said Index Number (or Index Numbers) for the purpose of measuring and providing a standard for regulating the General Level of Commodity Prices.

Said committee is authorized to improve the Index Number (or Numbers) from time to time as evidence, data or methods for possible improvement become available.

(f) The Federal Reserve System shall employ the said Official Index Number (or Index Numbers) as a guide or criterion by which to accomplish the restoration of the General Level of Commodity Prices to a more normal level and the stabilization of that level as hereinafter authorized and directed.

VOLUME OF TRADE INDEXES

Section 3. Since the stabilization of the price level is substantially equivalent to adapting the volume of credit to the growth of business, the Federal Reserve System is authorized to employ as a supplementary guide or criterion, for normalizing and stabilizing the price level, what it shall deem the best available statistics of the volume of trade and all data related thereto.

RESTORATION OF PRICE LEVEL

Section 4. Immediately after the amendment, stated in Section 1 above, to the Federal Reserve Act, the following further amendment shall be added:

" (k) The Federal Reserve System is hereby authorized and directed to take all suitable and available steps to raise the present deflated level of prices, as speedily as possible to the level existing before the present deflation.

" (l) Said pre-deflation level is to be determined on the basis of the best statistics available.

KEEPING THAT LEVEL

"(m) When said pre-deflation price level is reached, taking into consideration all aspects of the situation, including specifically the figures reached by the Index (or Indexes) employed for that purpose, the fact shall be made public in the manner provided in Section 1 (j) supra, and thereafter said level shall be maintained as nearly as this is possible through monetary and credit policy.

"(n) In maintaining said level so far as possible, the Federal Reserve System is authorized to extend its open market operations by buying and selling commercial paper as well as all other types of drafts, bills of exchange, acceptances, municipal warrents, government bonds, and other securities hitherto authorized.

"(o) If the securities held by the Federal Reserve System, and available for sale, seem, at any time, to the stabilization committee hereinbelow constituted, to be too near exhaustion, the System is authorized to issue and sell, in the open markets, (and at any later time, re-buy), new interest-bearing debentures in such volume and of such date of maturity and rate of interest as may be deemed by it most suitable.

"(p) All net profit or loss from buying and selling said debentures or paying interest thereon shall accrue to the U.S. Government and shall annually be paid into, or reimbursed from, the Treasury of the U.S.

"(q) If the gold reserve ratio is deemed to be too near to the prescribed minimum, the System is authorized and directed to lower the legal minimum reserve requirement for Federal Reserve Banks in accordance with, and under the conditions and restrictions already prescribed in Section II, subsection c of the Federal Reserve Act;

If, on the other hand, the legal minimum gold reserve ratio is deemed to be too high, the System is authorized and directed to raise the legal minimum ratio for Federal Reserve Banks.

SOME TECHNICAL DETAILS

"(r) If the Free Gold of the System is deemed, at any time, to be too near exhaustion, the System is authorized for a period of fifteen days at a time, to utilize its holdings of government bonds as backing for Federal Reserve notes. Such authorization may be renewed as often as required.

"(s) As its principal instrumentality for accomplishing the purposes of this Act the Federal Reserve System, acting through the Federal Reserve Board, is hereby authorized and directed to establish a Stabilization Committee to supersede the present Open Market Policy Conference.

"The Stabilization Committee shall consist of five members of which number at least one shall be from the Federal Reserve Board, and at least one shall not be otherwise connected with the Federal Reserve System. The term of office of each member shall be five years, except that the first five shall by lot have terms respectively of one, two, three, four and five years.

"Their salaries shall be..........

"The Stabilization Committee shall choose its own chairman and otherwise effect its own organization. It shall have jurisdiction over open market operations, the buying and selling of gold or gold certificates, shall exercise the authority to approve and to require changes in rediscount rates and such other powers as may be delegated to it by the Federal Reserve Board, or Banks, or System.

(t) "Anyone within the Federal Reserve System shall have the right to submit suggestions which they believe might result in a more effective stabilization to the Stabilization Committee and the Committee may offer such suggestions to all other functionaries in the System.

Section 5. Powers and Discretions on the part of the Federal Reserve System or any constituent thereof herein named, or implied, if not otherwise provided for herein, shall be exercised by the most appropriate existing authority within the System, in the usual way of such authority as to formalities and majority or other vote.

Section 6. Provisions herein for acts to be performed or services rendered by the federal bureaus or agencies are compulsory; and when subject to request by the Federal Reserve System or constituent thereof become compulsory on receipt of written notice from the secretary or other proper official of the Federal Reserve System or constituent thereof.

Section 7. Salaries and other expenses required by this Act shall be prescribed by the executive head of the respective Bureaus or Committees or agencies, none to be more than   per year. These shall be included in the several budgets submitted to the (Treasury), and shall be paid

by said to the respective Bureaus.

Note 1.

For example, the Bureau of Farm Economics would doubtless continue to collect prices at the farms; the Bureau of Mines to collect prices of metals, or coal and other minerals; the Bureau of Foreign and Domestic Commerce to collect prices of manufactured and partly manufactured commodities; the Bureau of Labor Statistics to collect retail prices of goods constituting the workers' cost of living.

Bill "B" to be introduced with "A" but not necessary to pass at once.

A B I L L

CONCERNING LEGAL TENDER AND AUTHORIZING (BUT NOT REQUIRING) THE FEDERAL RESERVE SYSTEM IN ORDER TO MAINTAIN THE GOLD STANDARD, AND IN STABILIZING THE GENERAL LEVEL OF COMMODITY PRICES TO ALTER THE PRICE OF GOLD AND RELATING TO THE TREASURY AND THE SECRETARY THEREOF, THE BUREAU OF THE MINT, GOVERNMENT ASSAY OFFICES, ETC., AS TO GOLD AND OTHER MATTERS.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled.

MAINTAINING THE LEGAL GOLD RESERVE RATIO

Section 1. If the Gold Reserve is deemed by the Federal Reserve System to be too near to the prescribed minimum, the System is authorized through its Stabilization Committee, if the other methods already authorized appear inadequate, to raise the official price of gold.

If, on the other hand, the gold reserve ratio is deemed to be too high, the System is authorized through its Stabilization Committee, if the other methods already authorized appear inadequate, to lower the official price of gold. (See Note 1, 2 and 3.)

SOME TECHNICAL DETAILS

Section 2. Should, at any time, the price of gold thus be changed, either up or down, the Federal Reserve System is authorized to introduce temporarily a small differential between its selling and buying prices sufficient to prevent speculators (for instance, on rumor of a proposed change in price) from taking advantage of the Federal Reserve System or the United States Government either by buying gold from them at one price and later selling it back to them at a higher price, or by selling gold to them at one price and later buying it back of them at a lower price. (See Note 4.)

After the price of gold has been sufficiently changed to safeguard the reserve ratio so that price may, presumably, again be left unchanged for a considerable period, the differential may be removed so that the Government's buying price and selling price may again coincide. (See Note 5.)

Section 3. All profits and losses from buying and selling gold shall accrue to U. S. Treasury.

Section 4. At all times the United States Treasury, Mints, Government Assay Offices and any other agencies authorized to buy or sell gold shall employ the same identical prices as those employed by the Federal Reserve System. (See Note 6.)

Section 5. If at any time the price of gold is changed as herein provided,

(a) the coinage of gold by the Bureau of the Mint shall cease except as provided under "(4)" below although its equivalent, the unlimited purchase of gold at the official price, shall continue.

(b) the redemption, by the United States Treasury, of United States notes, Treasury notes, and all other paper money, except gold certificates, shall be accomplished by selling gold bullion therefor, at the official price.

(c) the United States Treasury shall continue to redeem Gold certificates, being warehouse receipts, in gold bullion or gold coin at the option of the holder, at the present rate of $20.67 an ounce of pure gold, or 23.22 grains per dollar.

(d) The Mint is authorized and directed to coin at the present rate of 23.22 grains of pure gold per dollar such of the gold bullion belonging to the Government as may be required to satisfy any demand for gold coin by holders of gold certificates.

(e) Any (full weight) gold coin in circulation shall be redeemable by the United States Treasury at its face value, in gold bullion and shall continue to be full legal tender.

(f) Gold bullion shall be full legal tender at the official price at which the Federal Reserve System sells it, provided this bullion is in the form of standard gold bars nine-tenths fine, officially stamped as to such fineness and as to weight by the United States Government under rules and regulations prescribed by the Secretary of the Treasury. (See Note 7.)

Section 6. In preparation for the contingency that the price of gold may sometime be changed, the Federal Reserve System is authorized to accumulate systematically gold certificates in exchange for Federal Reserve Notes, and the Treasury is authorized, as occasion offers, to retire and destroy systematically such certificates when not further needed, to the end that, long before the possible contingency arrives of a change in the price of gold, the gold certificates in circulation shall be almost wholly replaced by Federal Reserve Notes.

Section 7. Federal Reserve Notes shall be full legal tender.

Section 8. To avoid needless litigation, notice is hereby given to all whom it may concern that one year after the passage of this act all contractual debts then outstanding containing the well-known "gold clause"--"payable in gold coin of the present standard of weight and fineness," or other words to that effect, shall be payable in official standard gold bars nine-tenths fine at the official price of gold then in force, regardless of the said "gold clause"; provided, however, that either party to any contract outstanding said one-year period may, after the passage of this Act, but within said one year period, reinstate the "gold clause" in full force and effect so far as said contract is concerned by giving or mailing written notice to that effect to the other party or parties to said contract fully specifying the contract bond or other instrument to which he is a party.

Any contractual debts containing the gold clause entered into after the passage of this Act shall, notwithstanding that clause, be payable in gold standard bullion bars at the current official price at which the Federal Reserve System sells gold; provided, however, that said "gold clause" may be validated by inserting in the contract the words "This gold clause is inserted with full knowledge of and notwithstanding the Act of ______________________ (date of this Act) entitled ______________________ (title of this Act).

and provided the contract is expressed in terms of units of weight and not in terms of dollars. When contracts containing the gold clause are thus proved by express reference to this Act to be intended by both contracting parties to be performed in weight of gold, the contracting parties are free to perform them. But if, by inadvertance or neglect, the gold clause is employed without such special agreement subsequent to this Act and the parties to the contract come into dispute as to whether the old gold dollars or the new should be used, that party contending that the new should be used shall be sustained and the other party shall have no valid claims to the contrary. (See Note 8.)

Section 9. Powers and discretions on the part of the Federal Reserve System or any constituent thereof herein named or implied, if not otherwise provided for herein, shall be exercised by the most appropriate existing authority within the System in the usual way of such authority as to formalities and majority or other vote.

Section 10. Provisions herein for acts to be performed or services rendered by other federal bureaus or agencies are compulsory; and when subject to request by the Federal Reserve System or constituent thereof become compulsory on receipt of written notice from the secretary or other proper official of the Federal Reserve System or constituent thereof.

Section 11. Salaries and other expenses required by this Act shall be prescribed by the executive head of the respective bureaus or committees or agencies, none to be more than $______ per year. There shall be included in the several budgets submitted to the __________ (Treasury), and shall be paid by said __________ to the respective bureaus.

Note 1. It will be observed that there is no mandate put upon the Federal Reserve System ever to change the price of gold. Such a change is merely authized if and when found necessary to prevent inflation or deflation. As long as the retention of the present basis of $20.67 an ounce continues to be compatible with the maintenance of a stable price level, that basis will remain.

But if and when the retention of a constant price of gold and the maintenance of a fairly constant level of prices are found to be incompatible, a change can and should be made. The Federal Reserve authorities can be trusted not to make it any sooner than need be. But it is only fair to them that, when given the responsibility to stabilize the price level and to keep the legal gold reserve ratio they should not be eventually hamstrung in their attempts by the fixity of the price of gold. Inasmuch as the only proper purpose of maintaining a uniform price of gold is to prevent inflation, no one can properly object to changing the gold price if that purpose can better be served thereby.

Any change, made with such a purpose, is not an abandonment of the gold standard but simply a revaluation of gold to correspond to any great change in its purchasing power. The present price of $20.67 an ounce might conceivably be maintained indefinitely without producing material inflation or deflation. And it is altogether probable that no change would be required in many years.

It is further to be noted that any change which might become necessary after it is once made in a thorogoing manner so that the reserve ratio is again moderate - neither absurdly high nor low - this new price will probably stand unchanged for many years.

Under these circumstances there seems no occasion for alarm, on the part of those who regard the figure $20.67 as sacred, over the remote prospect of its being someday changed, especially as any change is authorized only in furtherance of maintaining the gold standard and its chief purpose - stability.

Note 2. Should, at any time, the price of gold be raised this operates automatically to raise and thereby improve the reserve ratio in two ways, namely:

(1) It stimulates the sale by gold owners of their gold to the Federal Reserve System and discourages the purchase of gold from it.

(2) It increases the dollar-value of the gold in the vaults of the Federal Reserve Banks.

If, for instance, the price of gold is increased by one per cent, a hundred million ounces of gold in the vaults now worth $20.67 an ounce or 2067 million dollars is thereupon worth, instead, one per cent more rising namely to $20.8767 per ounce or to 2087.67 million dollars, an increase of 20.67 million dollars which can be entered on the books of the Federal Reserve Banks as a profit.

Contrariwise, if at any time, the price of gold should be reduced this operates automatically to reduce the reserve ratio in two ways, namely:

(1) It discourages the sale by gold owners of their gold to the Federal Reserve System and encourages the purchase of gold from it.

(2) It decreases the dollar-value of vault gold.

This, of course, registers a loss on the books of the Federal Reserve Banks.

Note 3. There is practically no limit under this Act, to the power of the Federal Reserve System, either to counteract deflation or to counteract inflation. Its buying power is practically unlimited and, when exercised, it will raise the prices of securities and other goods, not only of those it buys but of the great mass of others. This is true not only because of the sympathetic movement of securities but because the buying power does not cease with its exercise by the System. Those who receive this buying power pass it on by buying other securities and goods of all sorts, raising their price in turn and so on indefinitely. This new buying power is not at the expense of some other buying power as in the case of an individual spending money already in circulation before he gets it. The Federal Reserve notes or other credit is newly created, a net addition to the circulating medium. Until withdrawn this new circulating medium adds permanently to the annual buying power of the country.

To see how resistless is the power of the Federal Reserve System to sustain the price level, suppose that, as was threatened recently there should be a nation-wide run on banks and continued hoarding, causing an increasing vacuum in our circulating medium; this vacuum, however great, could be filled as fast as created, by pouring out Federal Reserve Notes in purchasing of securities (to say nothing of any added deposit balances). Yet the gold reserve need never be too low if the price of gold were raised sufficiently. Furthermore, if action were prompt enough there would be no hoarding as hoarding is the result of deflation.

For the same reasons the outflow of gold to foreign countries cannot prevent the Federal Reserve System from safeguarding the price level against deflation so long as it has the power to raise the price of gold.

The only limit to be encountered would be reached when the Federal Reserve System had exhausted the entire legally available security market so as to have gathered within its own walls all Government bonds, and other securities on its eligible list.

To take an example of the reverse sort, suppose there should be a threat of inflation, due, say, to speculative activity resulting in increasing loans and swelling the volume of deposits subject to check. The Federal Reserve could then, if need be, sell newly created debentures without limit, receiving back their own Federal Reserve Notes (or deposit balances on their books to the credit of member banks or the United States Government). This shrinkage of outstanding Federal Reserve Credit would cause member banks in turn to curtail the credit extended by them to their customers. Otherwise their reserve ratios would be reduced below the legal requirement. This shrinkage would have no limit since there is no limit to the possible issue of debentures.

The importation of gold from abroad cannot upset the control of the Federal Reserve over inflation so long as the latter can decrease the price of gold.

Of course, every change in the price of gold changes the rates of foreign exchange. But the slight additional inconvenience caused by this to foreign commerce will be as easily and regularly allowed for as any other, and the inconvenience is small as compared with the advantages obtained in the fact that domestic commerce has a stable level of prices; for foreign commerce is of very small volume, say one-tenth the volume of domestic commerce.

Note 3 continued

Moreover, at present, several of our chief foreign customers are now off the gold standard, so that there is scarcely any inconvenience added to that we already have at present. Ultimately, it is altogether likely that all important commercial nations will adopt uniform stabilization laws and policies.

There is only one obstacle to provent the Federal Reserve System, by this Act, from fully safe-guarding the price level against both inflation and deflation. It cannot stop the danger of Government inflation. The Government can, in its sovereign power, break any or all rules laid down in this Act, break away from the gold Standard, and inflate the currency to suit itself.

In times of great distress, such as war, this usually happens. There is no way by law to prevent inflation by the Government; for the Government is the lawmaker. But as long as the rules laid down in this Act are observed the Federal Reserve System has full control of the circulating medium, including deposit currency, and can stop either inflation or deflation to any conceivable extent.

Note 4. The reason why there should be a special safeguard against speculation injurious to the Government is because the Government unlike an ordinary buyer and seller, stands ready to buy and sell at the same price instead of making a profit in the selling price over the buying price.

Note 5. Thereafter the gold standard will continue with a fixed price of gold (that is a fixed weight of the gold dollar) exactly as at present until any further adjustment is needed to avoid deflation or inflation. Thus while all the virtues of the gold standard are retained, its periodical evils are avoided. Instead of those periodical evils of inflation and deflation there will be occasional readjustments in the price of gold. But these changes in the gold price basis will be made solely in order to avoid changes in the commodity price base. In this respect they will differ from such revaluations as those of France and Italy in recent years. They regained the gold standard after war time inflation, through devaluing the gold franc and lira.

Note 6. The above provisions make possible the perpetuation of the gold standard under all possible circumstances. They also permit the retention of the present price of gold, $20.67 per ounce, and the corresponding weight of the dollar except when, if ever, a change of price should be necessary to supplement the other efforts of the Federal Reserve System in order to prevent deflation or inflation of the price level. The chief justification of the gold standard has been that it afforded, to some extent, a safeguard against inflation such as has so often occurred when a country has gone off the gold standard and has adopted irredeemable paper money.

But this safeguard against inflation has only been partial. For instance, we experienced a great gold inflation between 1896 and 1930.

Note 6 continued

Moreover the gold standard has afforded no safeguard whatever against deflation. England has just preferred going off the gold standard rather than suffer further deflation.

Under the present plan there will never be any need of America following the English example by abandoning the gold standard. She will have a gold standard safeguarded against deflation and inflation alike, a gold standard almost fully assimulated to a virtual goods standard, in short, a genuine standard of purchasing power, fair to debtors and creditors alike. It may never be necessary to change the price of gold; but when, if ever, a change should become necessary, it would always be a benefit and never an injury.

If the price of gold is ever raised, it will only be because otherwise we should suffer deflation. That is, the price of gold would be raised only when gold became so scarce that its price clearly ought to be raised.

Contrariwise, if the price of gold is ever lowered it will only be because otherwise we would suffer inflation. In other words, the price of gold would be lowered only when gold becomes so superabundant that its price clearly ought to be lowered.

Note 7. The holders of gold certificates or gold coin can thus have no cause for complaint. For they can, at any time, become holders of gold coin; and the holders of gold coin can, if their coined dollars of 23.22 grains each are bigger than the new current gold bullion dollar, melt them into bullion and get more dollars than they originally had; while, on the other hand, if their coined dollars of 23.22 grains are smaller than the new current bullion dollars these coins can be used, like token coins, at their face value, or redeemed in the new and bigger bullion dollars.

Practically, however, the number of the old style gold coins or gold certificates will be negligible, because of Section 5.

Note 8. The object of the above provisions is obviously to forestall disputes over the "gold clause" and yet to give full freedom of contracting parties, if any, who still wish that clause to stand.

William Howard Taft, when Professor at Yale, told me that, in his opinion, Congress has full power to modify or abrogate contracts despite the fact that our Constitution forbids the States from so doing. He cited the Greenback cases as sustaining his opinion.

Probably the number of disputes over the gold clause would be very few. At the time of the passage of this Act there would presumably be no difference between the two standards and the average man would be willing to accept the new standard for several reasons:

(1) The Corporations with gold-clause bonds outstanding would surely prefer the "new" dollars because they would then keep their bond accounts in the same standard as is customary and in which all their other accounts are kept and would doubtless recommend that their bondholders should accept the "new" standard;

Note 8 continued

(2) the ordinary bondholder would have the same preference;

(3) he would have no reason to believe that he would gain by using the "old" dollars;

(4) he would not like to look forward to expensive litigation and possible defeat;

(5) he would recognize the superiority of a stable standard.

In cases where a person was obstinately in favor of the "old" there would still be some chance of the other party agreeing on that basis. There would be every opportunity to come to an agreement on either basis and both parties usually desiring to come to some sort of an agreement in advance of the day of a possible divergence between the two standards. For these reasons it seems certain that the number of cases left still unagreed upon would, by the time when, if ever, probably many years hence, the two standards would actually diverge, would be negligible.

B I L L "C"

A BILL

AUTHORIZING AND DIRECTING THE FEDERAL RESERVE SYSTEM TO AID IN STABILIZING THE GENERAL LEVEL OF COMMODITY PRICES THROUGH ADJUSTING THE MEMBER BANKS' RESERVES AND TAXING NON-MEMBER BANKS ON CLEARINGS

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled

Section 1. The Act approved December 23,1913, known as the Federal Reserve Act, as amended, is hereby further amended as follows: Add to section 14 the following paragraphs:

(t) If the gold reserve ratio is deemed to be too near to the prescribed minimum, the System is authorized, in addition to or in conjunction with other measures already authorized in such a contingency, to lower the minimum reserve requirements of member banks, the reduction to be by a uniform percentage.

"If, on the other hand, the legal minimum gold reserve ratio is deemed to be too high, the System is authorized, on due notice, in addition to, or in conjunction with, other measures already authorized in such a contingency, to raise the minimum reserve requirements of member banks, the increase to be by a uniform percentage.

Section 2. The Act of March 3, 1865, imposing a tax on state bank notes is hereby amended by adding:

The Federal Reserve System is authorized and directed to make a service charge of ___ % on all checks cleared for non-member banks.

Three Bills to Stabilize the General Level of Prices

Bill "A"

Bill "A" requires the Federal Reserve System to do all in its power to stabilize the general level of prices at some "normal", considerably above the present deflated level. This is to be done by all available methods, including buying and selling securities in the open market, raising and lowering rediscount rates, raising and lowering the reserve ratios of Federal Reserve Banks (they can be lowered under existing laws), advising commercial banks, cooperating with foreign banks; - also by statistical studies and by publicity. Important decisions as to monetary and credit policy are to be made public.

Official index numbers for measuring price levels are to be established by the Interdepartmental Committee on Price Indexes.

Since a stable price level means adjusting credit to the requirements of trade, statistics of the volume of trade are to be watched as a supplementary check and guide.

In case the Federal Reserve System, in selling securities, should exhause its supply, it may replenish the supply by issuing new debentures.

Any profits or losses from these stabilization operations are to accrue to the United States Treasury.

- - - - - - - - - - - - - - -

Bill "A" is largely an emergency measure. It would operate by methods which are, for the most part, already available.

Bill "B", on the other hand, involves new methods and can await long and thorough study.

- - - - - - - - - - - - - - -

Bill "B"

According to Bill "B", if, despite the methods in Bill "A", the gold reserve of the Federal Reserve System becomes reduced to the danger point, the Federal Reserve System is authorized to raise the official price of gold. Reversely, if the reserve becomes too high, the price of gold may be lowered.

There is no mandate put upon the Federal Reserve System thus to change the price of gold. The procedure is merely authorized when and if the addition of that method to the other methods of preventing inflation or deflation shall be deemed necessary. Probably no change would be necessary for many years, if at all. Without such authority, however, the Federal Reserve System might possibly find itself unable to stabilize the price level, as the gold reserve might become otherwise unmanageably and absurdly low or high.

Suppose, in case of genuine necessity, the price of gold should be raised; the effect on the gold reserve ratios would be salutary in two ways:

(1) it would stimulate the sale of gold to the Federal Reserve System and discourage the purchase of gold from it;
(2) it would increase the dollar value of the gold in the vaults of the Federal Reserve Banks. If, for instance, the price of gold should be raised by one per cent, then 100,000,000 ounces in vault, worth now (at $20.67 an ounce pure) 2067 million dollars would become worth one per cent more. That is, the per ounce price would rise to $20.876 and the total to 2087.67 million dollars - an increase of 20.67 million dollars. The reverse applies if the price of gold should need to be lowered.

This power to change the price of gold would counteract any tendency toward inflation or deflation of the price level, or toward outflow of gold abroad or influx from abroad.

Gold coinage would cease and gold bars be employed instead. The redemption of other sorts of money in gold would be retained - taking the form of the free and unlimited purchase of gold bullion by the Mint at the official price - substantially as at present, except that the official price might not remain forever at $20.67 an ounce.

To avoid speculation in gold at the expense of the government, or of the Federal Reserve System, a small spread may be made between official prices for buying and selling.

Provision is made for special treatment of any lef-over gold coins, or gold certificates, and also for "gold clause" contracts.

- - - --- - - - - - - - -

Bill "C"

Bill "C" gives the Federal Reserve System authority to raise or lower the reserve ratios of member banks.

For the purpose of drawing non-member banks into the System, the bill authorizes a penalty on non-members in the form of a charge for clearing their checks.

Thus, with practically all banks under one system and their reserve ratios subject to control by that system, the volume of credit can be fully controlled, so as to be adjusted to the needs of business; which is another way of saying: so as to keep a stable level of prices.

My dear Mr. Meyer

The enclosed abstract is supplementary to the letters and bills already sent you.

Irving Fisher

Irving Fisher

RECEIVED
DEC 1 1931
OFFICE OF
THE GOVERNOR

GENERAL STATEMENT

I agree with most of the Bills except as to two points. I am not sure that we should adhere to a commodity price index exclusively, but think that several indexes should be published and used with common sense including the Snyder or equivalent general index, and that the whole subject of indexes should be worked out as a technical matter by the inter-departmental committee on price indexes which already exists in Washington. I also do not think that the price level ought to be raised all the way back to where we started from but only, say, half way back. There may be a few other details with which I would differ from the bills as I have drawn them for the Federation.

Of course, these bills are not yet for publication but you are quite free to show them with discretion to anyone whose advice or criticism might be of help. Any comments will be greatly appreciated.

Irving Fisher

YALE UNIVERSITY
DEPARTMENT OF POLITICAL ECONOMY
NEW HAVEN, CONNECTICUT

PROFESSOR IRVING FISHER
460 PROSPECT STREET

November 25, 1931.

Mr. Eugene Meyer, Governor,
The Federal Reserve Board,
Washington, D.C.

My dear Governor Meyer:

Enclosed is a copy of the stabilization bill prepared partly by me in conjunction with Dr. W. I. King, Professor John R. Commons and others for the Stabilization Committee of the American Farm Bureau Federation. I intended to send it to you long before this, but I have been out of town and the matter slipped my mind.

Doubtless you will find a good many faults in this bill. In fact, I myself do, and the bill does not represent exactly my own views but represents those which the Committee wanted expressed. I did succeed, however, in getting the Federation to give up the greenback plan which they were about to propose.

If you have time to go over this bill, in case you have not already seen it, and feel that you would be interested to do so, I would be delighted to have the opportunity to discuss it with you sometime, although I realize that you are already overwhelmed with other work.

Very sincerely yours,

Irving Fisher

IF.W

Mr. Goldenweiser ✓

November 30, 1931.

Prof. Irving Fisher,
Department of Political Economy,
New Haven, Connecticut

Dear Professor Fisher:

Please accept my thanks for your letter of November 25, 1931, enclosing a copy of the stabilization bills prepared partly by you in conjunction with Dr. W. I. King, Professor John R. Commons, and others for the Stabilization Committee of the American Farm Bureau Federation.

As you indicate, the pressure here is very great these days, but I shall be glad to examine the bills at the first opportunity.

With best wishes, I am

Very truly yours,

(Signed) Eugene Meyer

FILE COPY