

A meeting of the Federal Reserve Board was held in Washington on Wednesday, January 17, 1934, at 3:25 p. m.

PRESENT: Mr. Black, Governor
Mr. Hanlin
Mr. Miller
Mr. James
Mr. Thomas
Mr. Szymczak

Mr. Morrill, Secretary.

Governor Black stated that he had been advised that an executive session of the Banking and Currency Committee of the Senate would be held this afternoon at 4:00 p. m. to consider the proposed "Gold Reserve Act of 1934"; that he, Mr. Miller and Mr. Wyatt had been invited to appear; that he understood that Mr. Morgenthau, Mr. Oliphant, General Counsel of the Treasury, and Mr. Holtzoff, Special Assistant to the Attorney General, had also been invited to be present; that he was engaged in the preparation of a draft of a statement which he would make to the committee; and that he had asked the members of the Board to meet with him so that he might read to them what he had written. He then read the proposed statement, which was as follows:

"I would like to make perfectly clear to the Committee the position of the Federal Reserve Board upon some of the different matters presented in this bill.

"In order to do this it will be necessary to inform the Committee of events leading to consideration of these matters by the Board and the Reserve Banks and the action by the Board upon them.

"There are three primary matters involved:

"(1) Devaluation of the dollar by changing its gold content.

"(2) The allocation of the so-called profit in event of devaluation upon the gold holdings of the Reserve System.

"(3) The transfer of the title to the gold of the System from the Reserve Banks to the Treasury.

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"The Board has recognized that the Congress has expressed itself on the Governmental policy as to devaluation in the Thomas amendment and the Board has given consideration to that policy only in connection with its effect in producing the other two questions involved, to wit: so-called profits upon and title to the System's gold holdings. These two questions have been considered with Governmental officials.

"I have always maintained that these two questions were not interdependent and that the solution of one of them was not of necessity involved in the solution of the other.

"On the question of the so-called profits upon our gold I have felt that these profits arose from a purely monetary policy of the Government, and arising from such purely monetary policy should and could go to the Government independently of and irrespective of the question of where the title to the Reserve System's gold was vested.

"This conviction has been held irrespective of my knowledge that this gold has been bought by the System under authority of law to buy and sell gold, and under the usual practice of Reserve Banks authorized by provisions of the Federal Reserve Act, and under the usual practice and procedure of the central banks of every country.

"The fact remains that this enhanced value of the System's gold has resulted from no work or investment or act or effort on the part of the System, but solely from a Governmental policy, and having so resulted the profit, or enhanced value, as I prefer to call it, should emure to the Government. This position was made plain in my conferences with the Government officials. My conclusion as to the allocation of this enhanced value of our gold involved in no way the necessity of a change in the title to that gold.

"The profits could be allocated to the Government by a simple amendment to the Thomas Amendment providing that in the event of devaluation such profit should go to the Government through one of the legal expedients necessary to that end. I have urged that this method be followed in the matter of such profits. Under such method the profits could be paid over by the Reserve Banks to the Government in any form meeting the Government's requirements. This would leave the gold in the Reserve Banks where it could continue as the base of the System's currency and credit operations, to be held even under such restrictions as are now placed upon gold by the Government. At the same time the Government would have received all enhanced value upon that gold as the result of devaluation. This is the process followed in France upon the devaluation of the franc.

"On the 14th day of December, 1933, at a conference with Government officials there arose for the first time the question of the Government's taking title to the gold of the Reserve Banks.

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"The opinion was expressed that the Government had this right under Section 11, paragraph (n) of the Federal Reserve Act, with which law you gentlemen are familiar, and based on this opinion a plan was proposed for taking title to the gold under this law.

"I objected seriously to the plan and asked time for its consideration. This time was granted and I thereupon presented in writing my objections to the plan and to its purpose.

"A suggestion was then made that the Reserve Banks could voluntarily exchange their gold for gold certificates of the character described in this bill.

"A conference of the Governors of the Reserve Banks was held and the two plans, namely, the one requisitioning the gold under Section 11, paragraph (n) of the Federal Reserve Act, or the voluntary exchange of the gold for gold certificates, were considered. The Governors asked for an expression of the Board's views in the matter and these views were expressed as follows:

"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 of 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.

"The conference with Government officials decided at my request that these two plans should be considered by the directors of the twelve reserve banks. The Governors returned to

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"their banks and called meetings of their respective directors.

"I had urged all along that this question of the title to the Reserve System's gold was of such large import and of so great consequence to the Nation that it should be solved by Congress and that Congress should determine where the title to this gold should vest, whether in the Reserve Banks or in the Treasury.

"This position was taken because

"(1) We were advised by counsel that Section 11, paragraph (n) of the Reserve Act was not applicable under its terms to the Reserve Banks and that under that law the Secretary was not authorized to requisition our gold, and that there was no other law so empowering him.

"(2) That the officers and directors of the Reserve Banks, as trustee, should not exchange their gold for the certificates described in this bill, because as such trustees they had no right to so change the character of the assets entrusted to them.

"(3) That Congress only could have the right under the law to determine this question.

"(4) That we felt the gold should remain with the Central Banks of the Nation for manifest purposes of currency and credit needs.

"While the directors of the Reserve Banks were considering these matters I called upon the President and presented the reasons against the two plans suggested and urged the necessity of Congressional action in determination of these questions. The President agreed with me and on December 29th the matter was withdrawn from consideration of the Board and the Reserve Banks, and as I understand it has now been presented to Congress for its determination.

"In reference to this gold I will simply state that at present it is pledged under the law as security for \$3,238,810,000 of Federal Reserve notes issued by the twelve banks and constitutes the reserves required by law upon notes issued by the Reserve Banks and upon deposits made with Reserve Banks.

"It may be of value to the Committee to have before it a statement of the gold in the Treasury and in the Reserve Banks. The following two pages give this information as of recent date.

"The gold coin and the gold bullion held by the Reserve Banks speak for themselves. The gold certificates held by the Reserve Banks were issued by the Treasury under authority in the United States Code, Title 31, Section 429, the first paragraph of which is as follows:

'The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin with the Treasury, or any Assistant Treasurer of the United States, in sums of not less than twenty dollars and to issue gold certificates therefor in denominations of not less than

"Ten dollars, and the amount so deposited shall be retained in the Treasury and held for the payment of such certificates on demand and used for no other purpose."

"The Reserve Banks' gold in the Federal Reserve Agents' Gold Fund deposited with the Treasury amounts to \$1,105,174,000 and is provided for in Section 16 of the Reserve Act. This gold is part of the collateral held by the Federal Reserve Agent for Federal Reserve notes and deposited as authorized by law in the custody of the Treasury.

"The gold of the Reserve Banks in the Gold Redemption Fund in the Treasury amounts to \$40,888,000 and is provided for in Section 16 of the Reserve Act and is gold deposited by the Reserve Banks with the Treasury for the purpose of redeeming in gold Federal Reserve notes.

"The gold of the Reserve Banks in the Gold Settlement Fund in the custody of the Treasury amounts to \$673,403,000 and is authorized by the same section of the Reserve Act, and is gold placed by the Reserve Banks with the Treasury for clearing purposes between the Reserve Banks.

"The Board is of opinion that both the allocation of the profits upon the System's gold and the question of title to its gold are properly matters for the determination of Congress.

Tabulation Attached to Statement of E. R.
Black, Governor of Federal Reserve Board.

"Total gold in the Treasury and in Federal Reserve Banks is
\$4,012,918,000

"Of this \$4,012,918,000, \$3,201,941,000 is held in the
different agencies of the Treasury as follows:

San Francisco Mint - - - - -	1,439,799,000
New York Assay Office - - - - -	879,610,000
Philadelphia Mint - - - - -	503,075,000
Denver Mint - - - - -	365,022,000
Seattle Assay Office - - - - -	2,194,000
New Orleans Assay Office - - - - -	1,308,000
Cashier's Office, Washington - - - - -	<u>10,933,000</u>
Total - -	3,201,941,000

"The remaining \$810,977,000 of gold coin and bullion
is located in the Federal Reserve Banks as follows:

New York	\$406,430,000
Chicago	134,707,000
San Francisco	92,905,000
Boston	47,616,000
Richmond	29,443,000
Cleveland	22,738,000
Philadelphia	20,548,000

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"St. Louis	12,476,000
Minneapolis	11,848,000
Kansas City	11,289,000
Atlanta	9,172,000
Dallas	<u>11,805,000</u>
Total	810,977,000

"In addition to gold coin and bullion the Federal Reserve Banks hold gold certificates as follows:

New York	\$264,797,000
Chicago	314,059,000
San Francisco	29,160,000
Boston	48,644,000
Richmond	23,717,000
Cleveland	89,332,000
Philadelphia	92,870,000
St. Louis	16,180,000
Dallas	12,478,000
Minneapolis	18,462,000
Kansas City	18,087,000
Atlanta	<u>15,010,000</u>
Total	942,796,000

"Gold of the Federal Reserve Banks in the Treasury is as follows:

Collateral for Gold Certificates held by Federal Reserve Banks - - - - -	\$942,794,000
Federal Reserve Agents gold fund (collateral for Federal Reserve notes)	1,105,174,000
Gold Settlement Fund	673,403,000
Gold Redemption Fund	<u>40,888,000</u>
Total	2,762,259,000

The total gold reserves of the 12 Federal Reserve Banks are - - - - - \$3,573,236,000

Gold in the Treasury other than Federal Reserve Gold is - - - - - 439,682,000

Of this \$219,391,000 is collateral for gold certificates in circulation outside of Federal Reserve Banks and \$156,039,000 is reserves against United States notes, \$30,329,000 against re-

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"redemption funds for national bank notes and Federal Reserve bank notes, and \$33,923,000 free gold.

Gold certificates in circulation outside of Federal Reserve Banks, \$217,391,000, and gold in circulation outside of Federal Reserve and Treasury, \$311,045,000."

A brief discussion ensued in which the other members of the Board approved the proposed statement.

Thereupon the meeting adjourned.

Charles H. Brown
Secretary.

Approved:

E. R. Black
Governor.