

MINUTES OF MEETING  
of the  
FEDERAL ADVISORY COUNCIL  
February 18-20, 1940

OFFICERS AND MEMBERS OF THE FEDERAL ADVISORY COUNCIL

For the Year 1940

OFFICERS:

President, Edward E. Brown  
Vice President, Howard A. Loeb  
Secretary, Walter Lichtenstein

EXECUTIVE COMMITTEE:

Edward E. Brown  
Howard A. Loeb  
Thomas M. Steele  
Leon Fraser  
B. G. Huntington  
Robert M. Hanes

MEMBERS:

Thomas M. Steele  
Leon Fraser  
Howard A. Loeb  
B. G. Huntington  
Robert M. Hanes  
Ryburn G. Clay  
Edward E. Brown  
S. E. Ragland  
John Crosby  
John Evans  
R. Ellison Harding  
Paul S. Dick

Federal Reserve District No. 1  
Federal Reserve District No. 2  
Federal Reserve District No. 3  
Federal Reserve District No. 4  
Federal Reserve District No. 5  
Federal Reserve District No. 6  
Federal Reserve District No. 7  
Federal Reserve District No. 8  
Federal Reserve District No. 9  
Federal Reserve District No. 10  
Federal Reserve District No. 11  
Federal Reserve District No. 12

# BY-LAWS OF THE FEDERAL ADVISORY COUNCIL

## ARTICLE I. OFFICERS

Officers of this Council shall be a President, Vice President, and Secretary.

## ARTICLE II. PRESIDENT AND VICE PRESIDENT

The duties of the President shall be such as usually pertain to the office; in his absence the Vice President shall serve.

## ARTICLE III. SECRETARY

The Secretary shall be a salaried officer of the Council and his duties and compensation shall be fixed by the Executive Committee.

## ARTICLE IV. EXECUTIVE COMMITTEE

There shall be an Executive Committee of six (6) members of the Council, of which the President and Vice President of the Council shall be *ex officio* members. To fill a vacancy, the President, or in his absence, the Vice President shall be authorized to designate as a member of the Executive Committee for a given meeting another member of the Council other than one elected to the Executive Committee.

## ARTICLE V. DUTIES OF THE EXECUTIVE COMMITTEE

It shall be the duty of the Executive Committee to keep in close touch with the Board of Governors of the Federal Reserve System and with their regulations and promulgations, and communicate the same to the members of the Council, and to suggest to the Council from time to time, special matters for consideration.

The Executive Committee shall have power to fix the time and place of holding its regular and special meetings and methods of giving notice thereof.

Minutes of all meetings of the Executive Committee shall be kept and such minutes or digest thereof shall be immediately forwarded to each member of the Council.

A majority of the Executive Committee shall constitute a quorum and action of the Committee shall be by majority of those present at any meeting.

## ARTICLE VI. MEETINGS

Regular meetings of the Federal Advisory Council shall be held in the City of Washington on the third Tuesday of the months of February, May, September, and November of each year, unless otherwise directed by the Executive Committee.

A preliminary meeting of the Federal Advisory Council shall be called by the Secretary in accordance with instructions to be given by the President of the Council.

Special meetings may be called at any time and place by the President or the Executive Committee, and shall be called by the President upon written request of any three members of the Council.

#### ARTICLE VII. ALTERNATES

In the absence of the regular representative of any Federal Reserve District, the Board of Directors of the Federal Reserve Bank of that District may appoint an alternate. The alternate so appointed shall have the right to be present at all the meetings of the Council for which he has been appointed. He shall have the right to take part in all discussions of the Council but shall not be entitled to vote.

#### ARTICLE VIII. AMENDMENTS

These by-laws may be changed or amended at any regular or special meeting by a vote of a majority of the members of the Federal Advisory Council.

February 18, 1940.

# MINUTES OF THE MEETING OF THE FEDERAL ADVISORY COUNCIL

February 18, 1940.

The first and organization meeting of the Federal Advisory Council for 1940 was convened in Room 336 of the Mayflower Hotel, Washington, D. C., on Sunday, February 18, 1940, at 2:00 P.M.

## Present:

Mr. Thomas M. Steele	District No. 1
Mr. Leon Fraser	District No. 2
Mr. Howard A. Loeb	District No. 3
Mr. B. G. Huntington	District No. 4
Mr. Robert M. Hanes	District No. 5
Mr. Ryburn G. Clay	District No. 6
Mr. Edward E. Brown	District No. 7
Mr. Shirley S. Ford (Alternate for Mr. John Crosby)	District No. 9
Mr. John Evans	District No. 10
Mr. R. Ellison Harding	District No. 11
Mr. Paul S. Dick	District No. 12
Mr. Walter Lichtenstein	Secretary

## Absent:

Mr. S. E. Ragland	District No. 8
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Mr. Thomas M. Steele was elected Chairman *pro tem* and Mr. Walter Lichtenstein Secretary *pro tem*.

The Secretary stated that communications had been received from all of the Federal Reserve banks certifying to the election of their representatives in accordance with the above list.

Upon nominations for the office of President of the Council being called for, Mr. Edward E. Brown was nominated. On motion, duly made and seconded, the nominations were closed and the Secretary was instructed to cast a ballot for Mr. Brown, who was thereupon declared elected President of the Council for the year 1940.

Upon nominations for the office of Vice President being called for, Mr. Howard A. Loeb was nominated. On motion, duly made and seconded, the nominations were closed and the Secretary was instructed to cast a ballot for Mr. Loeb, who was thereupon declared elected Vice President of the Council for the year 1940.

The President, Mr. Brown, thereupon called for nominations for the four appointive members of the Executive Committee. Messrs. Thomas M. Steele, Leon Fraser, B. G. Huntington, and Robert M. Hanes were nominated. On motion, duly made and seconded, these gentlemen were unanimously elected members of the Executive Committee for the year 1940, the President and Vice President being *ex officio* members.

On motion, duly made and seconded, Mr. Walter Lichtenstein was elected Secretary of the Federal Advisory Council for the year 1940 at a salary of \$2,500.00 per annum.

On motion, duly made and seconded, the Council readopted for the year 1940 the existing by-laws which are attached hereto and made a part of these minutes.

On motion, duly made and seconded, the minutes of the Council meeting of November 20-21, 1939, copies of which had been previously sent to the members, were approved.

The Secretary presented his financial report for the year 1939, which had been audited by Mr. J. J. Buechner, Assistant Auditor of The First National Bank of Chicago, which on motion, duly made and seconded, was approved and ordered to be printed. The report is attached hereto and made a part of these minutes.

On motion, duly made and seconded, the following resolution, was unanimously adopted:

"Resolved that the Secretary be and he is hereby authorized to ask each Federal Reserve Bank to contribute \$350 toward the Secretarial and incidental expenses of the Federal Advisory Council for the year 1940 and to draw on it for that purpose."

It was decided to discuss the various Mead bills that had been introduced into the Congress. Mr. Brown reported that it seemed to be doubtful whether any of these bills would be enacted into law.

Mr. Loeb reported that he had consulted with Mr. Ronald Ransom, Vice Chairman of the Board of Governors of the Federal Reserve System, regarding his suggestion that the Council might consider the possibility of having an Assistant Secretary for the Council resident in Washington. Mr. Loeb stated that Mr. Ransom had told him that this was a purely personal suggestion. There was some discussion, but no conclusions were reached.

At 3:00 P.M. Mr. D. J. Needham, General Counsel of the American Bankers Association, joined the meeting.

Mr. Needham discussed the matter of the Wagner investigation and stated that it was the general belief in Washington that the Wagner Committee did not wish to hold any hearings, much less to take any action, this year.

Mr. Needham then discussed the various Mead bills and presented copies of a third Mead bill, that had been introduced on February 13, 1940, known as S-3343. This bill is an amendment of Section 13(b) of the Federal Reserve Act. Mr. Needham believes that the Chairman of the Board of Governors of the Federal Reserve System is in favor of Mead bill No. 2 which would establish under the control of the Federal Reserve System a separate corporation to handle so-called loans to small business, but if this bill could not be enacted into law, then the Chairman believed it preferable either to repeal or to modify Section 13(b) of the Federal Reserve Act.

Mr. Needham then discussed the Brown bill (S-2045) designed to abolish the Comptroller's Office. This bill would place under the sole supervision of the Federal Deposit Insurance Corporation the examinations of banks. Senator Brown maintains that as this bill does not affect the fiscal or monetary policy of the Government and merely deals with administrative problems, the Wagner Committee might well consider it, even though it is not ready at this time to discuss more fundamental problems. Mr. Needham then discussed the Federal Savings and Loan bill and told that a constructive plan had been worked out in cooperation with Mr. Bodfish and other officials of the Federal Savings and Loan Association. The State building and loan associations, however, are very much opposed as are also some of the State banking commissioners who are not familiar with the details of the plan upon which agreement had been reached.

Mr. Needham questioned whether any bill dealing with these matters will be approved at present by the Senate Banking and Currency Committee.

Mr. Needham left the meeting at 4:00 P.M.

It was unanimously agreed that Mr. Brown should ask the Board of Governors for such material as had been prepared for possible use by the Wagner Committee.

It was also agreed to discuss with the Board of Governors S-3343 and also to point out to the Board that on previous occasions the Federal Advisory Council had opposed the proposals embodied in the Brown bill (S-2045).

Mr. Steele read a statement dealing with the gold problem which embodied the following four recommendations:

"1. The repeal of those provisions of law which permit further changes in the gold content of the dollar and the establishment of a fixed standard with a definite pledge of its maintenance.

"2. The prompt removal of all present prohibitions and restrictions upon private possession of gold.

"3. The restoration of free and unlimited coinage of gold to the same extent as permitted under our former gold standard, and

"4. The restoration of free circulation of gold coins and gold certificates."

It was moved by Mr. Dick and seconded by Mr. Harding to lay Mr. Steele's recommendations on the table and it was unanimously voted to do so.

Mr. Steele brought up the question of making public at the end of each meeting of the Council a statement to be given to the press by the President of the Council. Such statement should not include those matters upon which, before publication, the agreement of the Board is necessary.

Upon motion, made by Mr. Dick and seconded by Mr. Steele, it was voted that in future the President of the Council give out at the end of each meeting of the Council a general statement to the press in agreement with a representative or representatives of the Board of Governors. It was agreed to discuss this matter with the Board before acting upon it.

The meeting adjourned at 5:50 P.M.

WALTER LICHTENSTEIN,  
Secretary.

REPORT OF THE SECRETARY OF THE FEDERAL ADVISORY COUNCIL

For the Year Ending December 31, 1939

Balance on hand December 31, 1938.....	\$3,461.06	Salary.....	\$2,500.00
Assessment—Twelve Federal Reserve Banks.....	4,200.00	Miscellaneous.....	10.20
		Postage, telegrams, and telephone.....	39.28
		Printing and stationery.....	372.28
		Conference expenses.....	729.39
		Balance on hand	
		December 31, 1939.....	4,009.91
	<u>\$7,661.06</u>		<u>\$7,661.06</u>

Chicago, Illinois  
January 10, 1940

To the Federal Advisory Council:

I have audited the books, vouchers, and accounts of the Secretary of the Federal Advisory Council for the year ending December 31, 1939, and certify that the above statement agrees therewith.

Respectfully,

THE FIRST NATIONAL BANK OF CHICAGO,

By J. J. BUECHNER,  
Asst. Auditor.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL  
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

February 19, 1940.

At 10:25 A.M., a preliminary joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, Ernest G. Draper, and Mr. Chester Morrill, Secretary.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, Leon Fraser, B. G. Huntington, Robert M. Hanes, Ryburn G. Clay, Shirley S. Ford, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The President of the Council suggested that at the regular joint meeting to be held by the Board of Governors with the Federal Advisory Council tomorrow, the following three topics be discussed:

1. The Wagner Committee.
2. The various Mead bills.
3. The gold problem.

1. Vice Chairman Ransom stated that he doubted whether the Wagner Committee would take any action prior to the Presidential election, though it was possible that some individual would be selected to prepare an agenda. The staff of the Board of Governors had just completed its preliminary study of factual material but this had not been as yet considered by the Board of Governors. He stated that he believed it would be inadvisable for the Council at this time to pass a resolution or make any recommendation.

The President of the Council replied that there was no intention on the part of the Council at this time to pass any resolution or make any recommendation, but the members of the Council would like to have an opportunity to go over the factual material prepared by the staff of the Board prior to its being submitted to the Wagner Committee.

Vice Chairman Ransom stated that the purpose of the Board was merely to have the material ready but he did not know when or how much of it would be submitted to the Wagner Committee.

Governor Davis stated that the Board would not issue any material for publication until such time as the Federal Advisory Council had been able to review the material. He stated that the pressure arising from the gold situation might bring it about, that the Wagner Committee would be compelled to hold hearings on the gold problem.

Chairman Eccles stated that he did not believe that there was the least possibility that any hearings would be held this year.

2. Governor Draper stated that the Board had not been informed of Senator Mead's intention of introducing a bill liberalizing Section 13(b) of the Federal Reserve Act. In his opinion it might be well for the Council to consider, in case it was evident that some action would be taken by Congress, which the Council would prefer, recognizing the fact that the Board is well aware that the Council does not believe that any action should be taken. Chairman Eccles stated he doubted whether Congress would do anything at present, especially as there is much less pressure now for credit, as more banks have been making term loans.

Governor McKee stated that he was anxious to know whether absorption of bond premiums by the banks would prove in the future too heavy a charge on their future earnings; whether there is any danger of an impairment of bank capital resulting from present Government financing if there were to be superimposed upon this a very large extension of private credit.

Governor Davis wanted to know what prospect of demand for new financing existed in the various Federal Reserve districts.

Mr. Hanes raised the question whether it would not be desirable to permit banks, to do underwriting even though they did not undertake the distribution of securities.

Chairman Eccles raised a question in respect to "Baby" bonds which pay a relatively high rate of interest. He expects a very large increase in the sale of these bonds in the near future as they offer much more favorable rates than do savings banks or other similar institutions. He pointed out that the cost of distribution in the case of these bonds was very high.

Chairman Eccles stated also that it might be well for the Council to consider the silver problem.

The meeting adjourned at 11:45 A.M.

WALTER LICHTENSTEIN,  
Secretary.

## MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 19, 1940.

At 11:50 A.M. the Federal Advisory Council reconvened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, Leon Fraser, B. G. Huntington, Robert M. Hanes, Ryburn G. Clay, Shirley S. Ford, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

Dr. E. A. Goldenweiser, Director, Division of Research and Statistics of the Board of Governors of the Federal Reserve System, appeared before the Council and discussed the general financial and business situation and, more specifically, the gold problem and all it involved.

The meeting adjourned at 1:05 P.M.

After luncheon with Chairman Eccles, the Council reconvened at 2:25 P.M.

President Brown made formal note of the fact that the Board of Governors was willing to furnish the Council the material prepared for possible use before the Wagner Committee.

In regard to the Mead bill, it was agreed: (a) that large credit demands are being met at the present by existing institutions, as is also admitted by Chairman Eccles; (b) that there should be no new institutions for the purpose of furnishing additional credit created; (c) if, in spite of all this, something is done, it would be best to entrust the operations to the Reconstruction Finance Corporation. It is the feeling of the Council that the Federal Reserve System which is charged with handling the bank reserves of the country should not be in the business of making direct loans either to corporations or to individuals.

In reference to the questions proposed by Governor McKee, President Brown inquired of each member of the Council as to whether there is any demand for capital financing. It developed from this inquiry that there was no great demand for capital at this time which would lead to the flotation of any large amounts of either shares of stocks or bonds. It was felt that in this connection the question might be raised as to whether a situation might not develop which would be more easily met if the banks were given the right to participate in secondary underwriting.

As regards the effect of Government financing, and the like, upon the capital structure of the banks, the members of the Council feel that the data on this subject is much more available to the Board of Governors than it is to the Council, since the Board of Governors has access to the reports of bank examiners. It might be interesting to know, if such evidence is available, how much of a decline in the market value of bonds of various types would create a danger to the capital structure of banks. It seems obvious that the danger point would not be the same in any two cases.

In reference to "Baby" bonds, the members of the Council were unanimous in believing that wide distribution of these bonds is highly desirable and it is by far preferable to have Government securities held by private investors rather than largely by

banks and insurance companies. The high rate is desirable as this is one of the factors which stimulates a wide distribution of the bonds and the members of the Council rather presume that relatively a small amount of these bonds will be cashed before maturity and, therefore, the Treasury will not be met suddenly by a great demand for funds by the holders of these bonds. The Council does not have available statistics of the cost of distributing these bonds, but it feels that this problem as well as the question of rates should be left to the Secretary of the Treasury. President Brown pointed out that undoubtedly the high rates on these bonds affect somewhat the deposits in savings banks, building and loan associations and the like, but that as a matter of fact the deposits of these institutions were so large now that most of them had difficulty in employing the funds profitably.

President Brown appointed a committee consisting of Mr. John Evans, Chairman and Messrs. Fraser and Loeb, to draft a recommendation dealing with silver purchases to be submitted by the Council to the Board of Governors of the Federal Reserve System.

It was felt that the gold problem should be discussed with the Board and possibly a committee appointed to draft a recommendation to be presented at some subsequent meeting. President Brown stated the general feeling seemed to be that putting gold into circulation would probably have a very slight effect and that the whole gold problem was tied up with the reserve question and the like.

The meeting adjourned at 4:45 P.M.

WALTER LICHTENSTEIN,  
Secretary.

# MINUTES OF MEETING OF THE FEDERAL ADVISORY COUNCIL

February 20, 1940.

At 10:05 A.M. the Federal Advisory Council convened in the Board Room of the Federal Reserve Building, Washington, D. C., the President, Mr. Brown, in the Chair.

Present: Mr. Edward E. Brown, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, Leon Fraser, B. G. Huntington, Robert M. Hanes, Ryburn G. Clay, Shirley S. Ford, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

The Secretary of the Council read the report of the committee appointed to draft a recommendation on silver purchases. Two minor verbal changes were suggested at this meeting and at the subsequent joint meeting with the Board of Governors. The recommendation in its final form is attached to and made a part of these minutes.

The Council unanimously approved of the recommendation and it was decided to ask the Board of Governors to send a copy of it to the Senate Committee on Banking and Currency and also to make it public.

The meeting adjourned at 10:10 A.M.

WALTER LICHTENSTEIN,  
Secretary.

MINUTES OF JOINT CONFERENCE OF THE FEDERAL ADVISORY COUNCIL  
AND THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

February 20, 1940.

At 10:15 A.M., a joint conference of the Federal Advisory Council and the Board of Governors of the Federal Reserve System was held in the Board Room of the Federal Reserve Building, Washington, D. C.

Present: Members of the Board of Governors of the Federal Reserve System:

Chairman Marriner S. Eccles; Vice Chairman Ronald Ransom; Governors M. S. Szymczak, John K. McKee, Chester C. Davis, and Ernest G. Draper; also Messrs. Lawrence Clayton, Assistant to the Chairman of the Board of Governors; Elliott Thurston, Special Assistant to the Chairman; Chester Morrill, Secretary of the Board of Governors; L. P. Bethea and S. R. Carpenter, Assistant Secretaries of the Board of Governors; Walter Wyatt, General Counsel of the Board of Governors; J. P. Dreibelbis and A. K. Cherry, Assistant General Counsel of the Board of Governors; L. H. Paulger, Chief, Division of Examinations; E. A. Goldenweiser, Director, Division of Research and Statistics; J. R. Van Fossen, Assistant Chief, Division of Bank Operations.

Present: Members of the Federal Advisory Council:

Mr. Edward E. Brown, President; Mr. Howard A. Loeb, Vice President; Messrs. Thomas M. Steele, Leon Fraser, B. G. Huntington, Robert M. Hanes, Ryburn G. Clay, Shirley S. Ford, John Evans, R. Ellison Harding, Paul S. Dick, and Walter Lichtenstein, Secretary.

Vice Chairman Ransom stated on behalf of the Board of Governors of the Federal Reserve System that the members of the Council are to receive immediately the factual material so far prepared for the Wagner investigation. It was understood that this material was to be treated as strictly confidential.

President Brown made the statement with respect to the Mead bills agreed upon at the meeting on the afternoon of February 19, 1940. A discussion took place in respect to the Mead bills.

President Brown then took up the problems raised by Governor McKee and made a statement in accordance with the agreement reached at the meeting of the Council on the afternoon of February 19, 1940. Chairman Eccles stated that while no comprehensive investigation had been made as to the effect of the decline in the bond market upon the capital structure of banks, he pointed out that last September when there had been a decline of short duration the vast majority of banks continued to show a profit in their bond portfolios. He questioned whether banks would get into difficulties as long as they are allowed to carry Government and other securities of the highest class at par, especially as the Federal Reserve System is prepared to lend to the banks up to 100% on the par value of such securities. He admitted, however, that bank earnings might be affected. Chairman Eccles discussed at length what, in his opinion, would be the future trends of interest rates. A general discussion took place.

President Brown made a statement, as agreed upon, in respect to the "Baby" bonds. Chairman Eccles asked whether there might not be some point in establishing a limitation to the effect that no one individual should be allowed to hold a total of these bonds amounting to more than \$12,000 nominal value. He doubted the wisdom of permitting

those belonging to higher income groups to put a very large amount of funds into "Baby" bonds since this would be equivalent to a subsidy on the part of the Government to large investors and corporations. If the limit for any one individual was placed at \$12,000 it would probably meet the requirement of 95% of the population.

At 12:00 o'clock Governor Draper left the meeting.

The Secretary of the Council read the recommendation dealing with purchases of foreign silver, which is attached to and made a part of these minutes. A discussion took place with respect to the recommendation.

The Board of Governors agreed to transmit a copy of the recommendation to the Senate Committee on Banking and Currency and it also agreed that it would be desirable after each meeting of the Council and the Board of Governors to have a general statement issued to conform to the wishes of the Council and the Board.

The gold question was discussed at some length. At the request of Chairman Eccles, Mr. Fraser stated that while the re-establishment of free circulation of gold would have a good psychological effect it would be relatively unimportant. He thought it would be very dangerous to bring up the gold question in Congress at this time as it would probably lead to a discussion of many related matters which would tend to unsettle opinion in this country and abroad with the result that foreigners, feeling there might be danger of some further change in the price of gold, would be more likely than ever to send us gold before any change could take place. Mr. Fraser felt that it would be much better to leave the gold question alone until the end of the war and look to the possibility of an agreement between ourselves and the British and French. A general rise in the level of prices would do much to solve the gold problem.

At 12:45 P.M. Vice Chairman Ransom left the meeting.

The discussion of the gold problem continued.

The President of the Council stated that it was not the intention of the Council to take any action whatsoever at this time regarding this problem.

The meeting adjourned at 1:15 P.M.

WALTER LICHTENSTEIN,  
Secretary.

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

February 20, 1940

TOPIC No. 1. Purchases of Foreign Silver.

RECOMMENDATION: The Federal Advisory Council has noted that the Senate Committee on Banking and Currency is considering at this time S.785 which would discontinue the purchase of foreign silver by the Secretary of the Treasury. The Council is unanimously of the opinion that these purchases of foreign silver should be discontinued forthwith, particularly in view of the fact that silver purchases increase the already excessively large bank reserves.

The Federal Advisory Council, fully recognizing that the problems arising out of the accumulation of the enormous stock of gold now held by the United States Government have not resulted entirely from policies deliberately adopted and followed by this country, and can not be solved by corrective measures taken in the United States alone, nevertheless believes that a responsibility rests upon us to begin those steps which will eventually prove necessary before sane economic order can be restored to the world. The mere possession of 60% of the world's supply of that monetary metal which experience of centuries has shown to be the best medium for smooth and simple international exchange of goods and services imposes a responsibility upon us both of morals and of expediency which we can not escape.

With this situation in mind, the Council, as a first step toward the restoration of a sound and stable monetary system, urges upon the Federal Reserve Board that it use its influence to bring about -

- (1) - The repeal of those provisions of law which permit further changes in the gold content of the dollar and the establishment of a fixed standard with a definite pledge of its maintenance.
- (2) - The prompt removal of all present prohibitions and restrictions upon private possession of gold.
- (3) - The restoration of free and unlimited coinage of gold to the same extent as permitted under our former gold standard, and
- (4) - The restoration of free circulation of gold coins and gold certificates.

The Council makes this recommendation because of its convictions that -

- (a) - No system of managed money has yet been devised, or seems at all likely to be devised, which has the advantages of simplicity and automatic operation, free from political manipulation, possessed

- (b) - The absence of those qualities in our circulating medium possessed by what has historically come to be known as "hard money" is a constant menace to the stability of our currency. The degree of confidence which now exists may be readily shaken if and when realization becomes general that ours is an irredeemable paper currency, without intrinsic value, carrying no right of conversion into real money, and actually worth only what the holders from time to time believe it to be worth.
- (c) - The people of this country, owning through their government, as they do, a stock of monetary gold far beyond any conceivable requirements of a reasonable reserve, are entitled, if they desire it, to the actual possession of money which is not only a medium of exchange for domestic purposes but is an actual and stable measure and store of value everywhere recognized, and are entitled to a currency which is at any time convertible into standard money.
- (d) - Our large accumulation of gold offers more than ample support for all transactions which can be opened to our people by the resumption of a sound currency based on gold and convertible into gold. The danger of hoarding is believed by the Council to be relatively slight in view of the confidence which would be restored by the steps above recommended; there would seem to be no possible reason to export gold from the United States for the purpose of concealment in view of the motives which have operated to bring it into this country in such quantities; and, in the present state of international trade, it seems idle to suppose that appreciable amounts would be spent abroad even assuming that such expenditure should be considered an evil.

- (e) - The restoration of gold to the public would have a powerful effect in improving and stabilizing public confidence and would help to restore and stimulate a spirit of domestic enterprise.
- (f) - While the measures recommended would not materially limit the present possibilities of Member Bank credit inflation, they would in some degree tend to strengthen the brakes upon inflation inherent in the statutory requirements of gold reserves against Federal Reserve notes and the deposits of Member Banks held by the Federal Reserve Banks. The restoration of gold to general circulation, moreover, would have a strong psychological effect in the direction of removing temptation toward further changes in the gold content of the dollar.
- (g) - The taking of the proposed steps by this country which, of all important countries of the world is now in the best position to undertake them, would strengthen our position of leadership in advocating and achieving that currency stability which is so essential to international trade without which the hope of really permanent peace in the world at large is a vain illusion.