MEMORANDUM in re
SILVER CERTIFICATES
P. M. W. Jan. 25, '18.

The object of the Silver Certificate Amendment is to provide means for the payment of things (which we and our Allies buy in the Orient) without being obliged to ship gold.

If the consequence of the contemplated legislation should be the tying up of a large amount of gold, the object of the legislation would be defeated to that extent. The freeing of our silver must therefore not be accompanied by the tying up of our gold to the extent of 65% of the amount so freed - a condition that would be brought about if for the amount of silver certificates withdrawn we should issue Federal Reserve Notes. If that were the case, the entire legislation would not be worth while. It would be upsetting things without producing adequate results.

Unless, therefore, the Government should care to issue greenbacks for the time being to the equivalent amount of silver certificates, there is only one way out, and that is the issue of Federal Reserve Bank notes.

It has been suggested that we issue Federal Reserve Bank notes in amounts of fives and tens and rely upon the ability of the Treasury to withdraw a sufficient amount of greenbacks and to cut them up into ones and twos. There are several objections to this procedure: First, it will double the mechanical operations necessary. As to the speed with which the process would progress, we would be tied up twice. We would be limited to the speed with which silver certificates can be withdrawn, and this withdrawal would have to be synchronized with an equivalent amount of greenbacks that would have to be withdrawn simultaneously.

Second, both the greenbacks and the silver certificates have to be cancelled and in effect be reissued; for the silver certificates of one and two-dollars, one and two-dollar greenbacks are to be issued; for the greenbacks withdrawn, five and ten-dollar Federal Reserve Bank notes have to be issued in order to replace the currency now in use. We have to print twice, therefore, and we have to wait twice, and we have to ask the banks to sort out currency twice.

In addition, we are destroying reserve money - at this time a process very undesirable under present circumstances. (We drive it into circulation and substitute F. R. notes in the vaults of F. R. banks and member banks).

Moreover, if Federal Reserve Banks issued Federal Reserve Bank notes in fives and tens without any direct connection with the ones and twos that have been withdrawn and substituted by the Treasury, it would be very difficult to separate the item "Federal Reserve Bank Notes" in our statement in such a way as to eliminate it from the general reserve calculation. Our note issue would appear to have increased by $150,000,000, while if we issued the ones and twos direct we could establish a separate item in our weekly statement, calling it "One and Two-Dollar Federal Reserve Bank Notes", and everybody would know that this item has nothing to do with our general banking transactions for which $8,000,000 Federal Reserve Bank notes are already in circulation - everybody would know that it is simply a temporary item to be kept out just as long as our one and two-dollar notes should be outstanding in substitution for the silver certificates. In that case the five per cent reserve and redemption fund would form a separate item against these notes and would probably be considered adequate and not draw any criticism.

When we come to reissue the silver certificates, and if we had issued one and two-dollar Federal Reserve Bank notes our process of redemption would be simple; there would be a reissue on the part of the Treasury of the ones and twos and an equivalent withdrawal on our part of the bank notes. If the Treasury now puts out ones and twos by cutting up the greenbacks, there will later on not be any redemption of the ones and twos issued, as the greenbacks are not redeemable, and the Treasury may have to issue silver certificates in fives and tens in competition with the Federal Reserve Banks because, as conceivable, the country will have been saturated with ones and twos.

I do not see why we should insist upon complicating the proposition. As long as we are willing to issue Federal Reserve Bank notes against Government bonds and certificates of indebtedness, there is no difference whether they are fives and tens or ones and twos, provided they are to be withdrawn as soon as silver certificates will be reissued.

I strongly believe that the proper modus for us would be to begin to print the Federal Reserve Bank note ones and twos as soon as the law is passed and leave the greenbacks undisturbed at this time. Otherwise we woul unnecessarily add to the burden of the member banks. We have to appeal to them often enough nowadays to help us in getting in the gold certificates. We will have to ask them to help us in getting in the silver certificates, and I do not think it is advisable to create any more inconvenience than is absolutely necessary.

P. M. W. *
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COPY.

An Act to conserve the gold supply of the United States; to permit the settlement in silver of trade balances adverse to the United States; to provide silver for subsidiary coinage and for commercial use; to assist the Allies of the United States; and for the above purposes, to stabilize the price and encourage the production of silver.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED:

Sec. 1. The Secretary of the Treasury is hereby authorized from time to time to melt or break up and sell as bullion any Standard Silver Dollars now or hereafter held in the Treasury of the United States to a total of $150,000,000, of such Dollars on the simultaneous retirement of silver certificates (if any be outstanding against such Standard Silver Dollars) at the rate of One Dollar face amount of such Certificates for each Standard Silver Dollar sold as bullion for any of the purposes of this Act on terms as to price and otherwise to be established from time to time by the Secretary of the Treasury.

Sec. 2. Upon the sale as bullion from time to time under the provisions of this Act, of any Standard Silver Dollars, the Secretary of the Treasury shall immdeiately direct the Director of the Mint to purchase an amount of silver equal to 371¼ grains of fine silver in respect of every Standard Silver Dollar so sold, such purchases to be in accordance with the existing regulations of the Mint and at the fixed price of One Dollar per ounce of silver 1,000 fine, delivered at the option of the Director of the Mint at New York, Philadelphia, Denver, or San Francisco. Silver so sold or so purchased may be sold or resold for any of the purposes of this Act under rules and regulations to be established by the Secretary of the Treasury, and any excess of silver so purchased over and above the needs for the purposes recited in this Act, shall be recoined into Standard Silver Dollars or held for the purpose of such coinage. The net amount of silver purchased shall not, after making allowance for resales, at any time exceed the amount needed to recoin any Standard Silver Dollars theretofore sold as bullion under the provisions of this Act and such purchases shall continue until an amount of silver shall have been purchased, sufficient, after making allowance for resales, to recoin all Standard Silver Dollars theretofore sold under the provisions of this Act. PROVIDED, HOWEVER, that whenever the Secretary has sold silver bullion to the extent of $10,000,000 he shall discontinue such sales until he has purchased or contracted to purchase an equal amount of such bullion for coinage purposes at a price not to exceed the price at which such bullion was sold by him.

Sec. 3. Silver may be sold as bullion under authority of this Act, for the purpose of conserving the gold supply of the United States; of facilitating the settlement in silver of trade balances adverse to the United States; to provide silver for subsidiary coinage, and for commercial use, or to assist the Allies of the United States. The allocation to the Director of the Mint for subsidiary coinage of any silver shall, for the purposes of this Act, be regarded as a sale or resale.

1/28/18

SUBMITTED TO BOARD, January 28
by Mr. Strauss through Governor Harding.

An act to conserve the gold supply of the United States; to permit the settlement in silver of trade balances adverse to the United States; to provide silver for subsidiary coinage and for commercial use; to assist the Allies of the United States; and for the above purposes, to stabilize the price and encourage the production of silver.

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Sec. 2. Upon the sale as bullion from time to time under the provisions of this Act, of any Standard Silver Dollar, the Secretary of the Treasury shall immediately direct the Director of the Mint to purchase an amount of silver equal to 371¼ grains of fine silver in respect of every Standard Silver Dollar so sold, such purchases to be in accordance with the existing regulations of the Mint and at the fixed price of One Dollar per ounce of silver 1,000 fine, delivered at the option of the Director of the Mint at New York, Philadelphia, Denver, or San Francisco. Silver so purchased may be resold for any of the purposes of this Act under rules and regulations to be established by the Secretary of the Treasury, and any excess of silver so purchased over and above the needs for the purposes recited in this Act, shall be recoined into Standard Silver Dollars or held for the purpose of such coinage. The net amount of silver purchased shall not, after making allowance for resales, at any time exceed the amount needed to recoin any Standard Silver Dollars theretofore sold as bullion under the provisions of this Act and such purchases shall continue until an amount of silver shall have been purchased, sufficient, after making allowance for resales, to recoin all Standard Silver Dollars theretofore sold under the provisions of this Act.

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Sec. 4. In order to prevent contraction of the currency, Federal Reserve Banks may be permitted or required by the Federal Reserve Board, to issue Federal Reserve Bank Notes, in any denominations authorized by the Federal Reserve Board, against the security of United States Certificates of Indebtedness, or of One Year United States Gold Notes, in an aggregate amount not to exceed the amount of Silver Dollars melted or broken up and sold as bullion under authority of this Act.

The Secretary of the Treasury may, at his option, extend the time of payment of maturing Certificates of Indebtedness held as security for Federal Reserve Bank Notes for a period of not exceeding one year at any one extension, and the deposit of Certificates of Indebtedness by Federal Reserve Banks as security for Federal Reserve Bank Notes under authority of this Act, shall be deemed to constitute an agreement on the part of the Federal Reserve Bank making such deposit, that the Secretary of the Treasury may so extend the time of payment of such Certificates of Indebtedness or may pay such Certificates of Indebtedness in advance of maturity.

As and when Silver Dollars are coined out of bullion purchased under authority of this Act, or Silver Certificates are issued against bullion held for such coinage, Federal Reserve Banks may be required by the Federal Reserve Board to retire Federal Reserve Bank Notes in an amount equal to the amount of Silver Dollars coined, or Silver Certificates issued, hereunder, and, in the discretion of the Secretary of the Treasury, Certificates of Indebtedness deposited as security for Federal Reserve Bank Notes may at such time be paid off and canceled.

When Federal Reserve Bank Notes are issued under authority of this Act, against the security of Certificates of Indebtedness or One Year Gold Notes of the United States, the tax on such Federal Reserve Bank Notes shall be so adjusted that the net return on such Certificates of Indebtedness, or One Year Gold Notes, calculated at par, shall be equal to the net return on United States Two Per Cent Bonds, when used to secure Federal Reserve Bank Notes.

Nothing in this Act shall be construed as repealing or restricting the right of Federal Reserve Banks to issue Federal Reserve Bank Notes under authority of Section 4 of the Federal Reserve Act.

Except as herein provided, Federal Reserve Bank Notes issued under authority of this Act, shall be subject to all existing laws relating to the issue, redemption, and retirement of Federal Reserve Bank Notes issued under authority of the Federal Reserve Act.