

X-4056 308

FEDERAL ADVISORY COUNCIL

STATEMENT FOR THE PRESS

For release in morning papers,  
Wednesday, May 14, 1924.

At the meeting of the Advisory Council of the Federal Reserve Board held in Washington on May 12th and 13th, the resignation of Mr. Alfred L. Aiken as a member and Vice President of the Council was presented. Mr. Charles A. Morss, of Boston, has been designated by the Boston Federal Reserve Bank to succeed Mr. Aiken, and in his place he was elected a member and Vice Chairman of the Executive Committee. Mr. E. F. Swinney, of Kansas City, was elected Vice President of the Council.

In addition to the customary discussion of discount rates and economic conditions, the Council at the request of the Board gave consideration to the Dawes report. In view of the general interest in the matter it was decided to permit the publication of the Council's statement to the Board bearing on this subject, as follows:

"At the request of the Federal Reserve Board the Advisory Council has given careful consideration to the Report of the First Committee of Experts, the so-called Dawes Report.

The Council wishes to record its admiration for the excellent work done by the Committee and to express the hope that with the least possible delay the Committee's recommendations will be carried into actual effect.

The Council furthermore endorses the wish recently expressed by President Coolidge that American private capital and initiative give this plan its hearty support as a demonstration of the Nation's desire to do its full share in the economic rehabilitation of the Old World.

The Council has given particular thought to the question of how far the Federal Reserve System may aid the country in accomplishing these aims.

It is obvious that the Federal Reserve System, as such, cannot by any action of its own cooperate in the flotation and distribution of the new German loan, the absorption of which on a liberal scale by the United States is one of the prerequisites of the Dawes Plan. Nor should any such direct aid by the Federal Reserve System be necessary. There should be no difficulty in placing this loan provided it is properly secured and provided the investing public feels confident that the debtor, having accepted the burden in good faith, will be free to go about his work without hindrance as long as he makes the utmost effort of which he is capable.

While, therefore, the Council has no suggestion to offer to the Federal Reserve Board concerning this phase of the problem, there are important services the Federal Reserve System could render with regard to the operations of the new Note-Issuing Bank which Germany is to organize under the provisions of the Dawes Plan.

The Council urges the Federal Reserve Board to examine very closely into the powers vested in this respect in the Federal Reserve Banks and to study the question how far it may be desirable to amend existing rulings and regulations in order to approach the problem of Europe's financial and economic reconstruction in the most helpful spirit, in the same manner as is being done by the Bank of England and other central note-issuing banks.

Unless America finds ways and means to permit her excessive banking strength to benefit other countries, particularly those striving to bring their house in order, the dollar cannot maintain its position as a world standard of exchange, and foreign countries - and even American banking and commerce - will, once more, in a larger degree become dependent upon and

tributary to the pound sterling, to the greater exclusion of the dollar. It is idle, however, to preach the use of the dollar, unless, at the same time, we render it possible for other countries to avail themselves of our dollar facilities. It is obvious that our credit power cannot continue to grow indefinitely without the danger of over-saturation. If the stream of gold that floods our shores is not stemmed in time it is to be feared that, ultimately, we will not be able to ward off its inflationary effects. And inflation would only aggravate the economic maladjustment already existing within our own boundaries; a maladjustment which not only disturbs and endangers our trade with other countries, but which makes our agricultural situation particularly difficult and distressing.

But, irrespective of the danger of inflation against which there still are at our disposal powerful cushions that could be applied in order to counteract or soften its effect, the problem ought to be weighed from another and even more important angle.

It is the question of whether the world is more likely to regain the blessings of economic stability under the sway of several fluctuating standards of exchange or by a general return, as speedy as circumstances may permit, to definite relations of exchanges to gold as the ultimate measure and regulator.

The Dawes Report leads the world to the cross-roads in this regard. It provides for a German note-issuing bank on a gold basis, but leaves the door open to place it on a sterling basis, and it cannot be denied that there is no small probability of the latter basis being chosen. In the opinion of the Council the sooner Germany can be placed on a gold or gold-exchange basis, the sooner can England, and other countries, also, return to an

unrestricted gold standard, while, if Germany were placed on a sterling basis, England, - in returning to an unrestricted gold basis - would have to pull not only her own weight, but that of Germany also. It is obvious, therefore, that, if the new German bank is placed on the sterling exchange basis, the world must prepare itself to remain on a basis of exchange instability for a prolonged period, the end of which cannot be foreseen, while the adoption of the gold (that is, the dollar) basis would accelerate the return to world-wide stability.

It is this momentous alternative that is involved in the organization of the new German Note-Issuing Bank, and the Council deems it its duty to point to its importance with all the emphasis of which it is capable. It is not as an American problem that we are discussing this phase, but as one that touches the future of all the world.

The Council has been pleased to learn that it has been ruled that Federal Reserve Banks may consider as eligible for their open market purchases certain German dollar trade bills, payable in the United States, if endorsed by the recently established German Gold Rediscount Bank, the so-called Schacht Bank, and by approved American endorsers.

The Council sees in this decision a move in the right direction, helpful to all parties concerned, inasmuch as it transfers credit power from where it is idle and redundant to where an acute shortage of credit cripples the purchasing ability of a country, which normally ranks second in line as a buyer of our goods.

The Council recommends that, when the new German Note-Issuing Bank, provided in the Dawes Plan, is organized, the Federal Reserve Banks take the steps necessary in order to facilitate the rediscounting in this country

of properly protected German gold bills, be it through the intermediary of American banking institutions, or through so-called agency agreements, or such other arrangements as have been concluded by Federal Reserve Banks with Central Banks of other countries.

Measures of this character do not only tend to bring our gold hoard into active and healthy use, but by enabling and encouraging other countries to trade in terms of dollars we stimulate our own foreign commerce. We facilitate furthermore, the direct sale in dollars, of our own products, instead of making foreign countries and ourselves dependant in this respect upon Great Britain's acting as broker and banker, as naturally she would, where the Pound Sterling would govern as an exclusive basis of commerce and trade.

If there is any reason to assume that success of the Dawes Plan may prove the turning point in Europe's long road of suffering and decline, it is a unique opportunity and duty for the United States to lend a helpful hand to the utmost of its ability.

In the opinion of the Council, there does not seem to be any room for doubt with regard to the policy which in these circumstances the Federal Reserve System should pursue."

May 13, 1924.