

FEDERAL ADVISORY COUNCIL

## Statement for the Press

For Release in morning papers,  
Monday, May 25th.

A regular statutory meeting of the Advisory Council to the Federal Reserve Board was held in Washington on Friday, May 22nd, at which the various Federal reserve districts were represented. General business and financial conditions throughout the country were discussed, as well as the recent arrangements between the Federal reserve banks and the Bank of England regarding a revolving credit to the latter institution of \$200,000,000. In this connection, the Council issued the following statement:

"Since the last meeting of the Advisory Council, Great Britain has taken the long expected step of removing the embargo on the exportation of gold, and by reestablishing a free gold market in London, has once more anchored herself unreservedly to the gold standard.

This event marks an epoch in the financial history of the post war period. It means that the time has definitely come to an end when the world seemed to waver between monetary systems frankly bottomed upon gold on the one hand, and fluctuating exchanges and so-called "managed currencies" on the other. With the United States, England, the Dominions, Sweden, Holland, Germany, Austria, Hungary, and other countries now returned to a gold basis, or to gold exchange bases, the sway of gold over the world's leading financial systems once more has become an unchallenged fact.

For the United States this development is of the vastest importance. First, because we own approximately one-half of the world's monetary gold; second, because in order to preserve for ourselves conditions of a well balanced prosperity, foreign markets absorbing our surplus production are an imperative necessity and it is idle to expect that without exchange stability the purchasing power of foreign countries may regain its full capacity; third, in present world conditions the sale of our vast excess production to foreign buyers can only be maintained on anything like the present scale as long as we continue freely to absorb foreign securities. Our ability to do so, however, will depend upon the degree of credit these foreign countries will command here. We have, therefore, a vital interest in seeing the credit of our customers placed on the strongest possible basis.

While it would seem unnecessary to add to the weight of these three points, a true picture of the outlook is gained only if one considers what might have happened had England decided to continue the embargo on gold exports instead of restoring a free gold market. It would not seem an overstatement to assume

that in such a case the world might have suffered another exchange collapse with all the uncertainty to trade which that implies; that private and public credit in foreign lands would have been impaired and that instead of making efforts to balance budgets by taxation, the temptation for debasement of currencies in many countries would have continued indefinitely. In such circumstances true wages, and with that, living standards, in competing countries would have been further reduced. We are familiar with the social consequences that would result from such conditions and it is safe to conclude that we ourselves could not have escaped the effects of such a development which, amongst other things, would have involved a further great addition to our gold holdings.

The Advisory Council, with these thoughts in mind, has over and again expressed the view that America should take every opportunity, that consistently and safely could be grasped to aid foreign countries in their struggles towards regaining exchange stability, and that when the time came to do so with confidence and safety, the Federal Reserve System should do its part.

It is with the deepest satisfaction, therefore, that the Council has noted the arrangements now made, with the approval of the Federal Reserve Board, between the Bank of England, on the one hand, and the several Federal Reserve Banks under the auspices of the Federal Reserve Bank of New York on the other.

These arrangements in the view of the Council will benefit not only the two countries directly involved, but they will enure to the advantage of the entire world. The Council feels confident that in the annals of the Federal Reserve System these arrangements will be written down as one of its

proudest and most constructive achievements.

It is an impressive demonstration of the efficiency of the Federal Reserve Act, as at present constituted, that we are able to render assistance on a liberal scale without fear of adverse effect upon our own financial conditions.

Concentration of reserves and an elastic note issue planned on broad lines enabled us during these last years to absorb a flood of gold in such a manner as to deprive it of the inflationary effects which some of our European friends had expected it inevitably to produce. Conversely, we may now envisage with equanimity the possibility of an outgo of hundreds of millions of dollars of our surplus gold. The same process that enabled us to deprive the inflow of gold of its potential ill effects places us now in a position to lose vast amounts of it without entailing the necessity of a marked contraction of circulation or of forced deflation."