11.4. 111.2-14

Folder January 17, 1934

Governor Black The Gold Reserve Act of 1934.

Mr. Smead

In accordance with your request for comments on the above bill, attached the following are submitted:

1. Revaluation profit. The bill provides that gold coin and bullion now held by the Federal Reserve banks and Agents shall be held in custody for the account of the United States and payment therefor given by credits in the Gold Settlement Fund and the Agents' Gold Fund, and that balances standing to the credit of the Banks and Agents in the Gold Settlement Fund and the Agents' Gold Fund shall hereafter be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. This provides a means whereby profits resulting from a decrease in the gold content of the dollar may be taken by the Government without any special action on the part of the Federal Reserve banks, and without any change in the balance sheets of such banks.

2. Suggested verbal changes in bill. Section 8. Insert the words "except gold purchased with gold certificates" after the word "purchased" in the next to the last line of this section. Gold purchased with gold certificates could not be included in the general fund of the Treasury.

Section 10 (a). Insert the words "with approval of the President" after the word "Treasury" in line 2.

Section 10 (b). Insert the words "or with Federal Reserve banks" after the words "Treasurer of the United States" in line 5. Omit the word "other" from line 8 and insert the words "other than the President" after the word "States" in line 9. Substitute the word "use" for the word "expenditure" in line 9.

3. Comment on above suggested changes. Section 10 (a) as drafted gives the Secretary of the Treasury authority to assume complete control of general credit conditions and to negative any credit policies which the Federal Reserve System might adopt. This is an extremely broad power to delegate to any man even in times of emergency, and no Secretary of the Treasury should be permitted to exercise such powers without the approval of the President. Likewise, it would seem that the Secretary of the Treasury should not be given unlimited power to use $2,000,000,000 as a stabilization fund except under the general authority of the President.

While it may not be of particular importance it would seem that the Secretary of the Treasury should have authority to deposit all or a portion of the $2,000,000,000 stabilization fund with the Federal Reserve banks, as presumably stabilization operations could be carried out somewhat more conveniently with funds on deposit with the Federal Reserve banks than with funds on deposit with the Treasury itself.

4. Suggested addition to the bill. It is suggested that the following words be inserted after the semi-colon at the end of line 5 of Section 7, "except that the Secretary of the Treasury shall use such profits, to the extent of the amount of the subscriptions of the Federal Reserve banks to Class B stock of the Federal Deposit Insurance Corporation, to subscribe to stock in that Corporation on behalf of the United States and upon such subscription by the Secretary of the Treasury the Federal Deposit Insurance Corporation shall return to the Federal Reserve banks the amounts paid in

on their subscriptions to Class B stock of that Corporation, and the Federal Reserve banks are hereby relieved of the requirement contained in Section 12-B (c) of the Federal Reserve Act to subscribe to stock of the Federal Deposit Insurance Corporation". Omit the word "and" and the following comma at the beginning of line 6 and make the remainder of the section a separate sentence.

5. General comments. Section 10 (a) of the bill gives to the Secretary of the Treasury practically unlimited powers to purchase, sell, discount or negotiate at home or abroad;drafts, checks, bills of exchange, acceptances, coin, bullion, cable transfers, foreign exchange, bonds, notes, evidences of indebtedness, including the obligations of the United States or of any foreign Government, and any obligations or securities in whatever currency payable. This section not only gives the Secretary of the Treasury power to buy and sell securities for the purpose of affecting the market prices of United States securities but to conduct operations for the purpose of influencing the general credit situation throughout the whole country. In fact, the powers contained in this section would enable the Secretary of the Treasury to negative any discount or open market policy adopted by the Federal Reserve System and thus remove from the Federal Reserve System any effective supervision over credit conditions. These are extraordinary powers which it would seem should be exercised only with the approval of the President, and only during a definitely limited period. It is suggested, therefore, that the following sentence be added at the end of Section 10 (a). "The powers granted in this section may be exercised during the period of the present emergency but in no case beyond June 30, 1935".

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