

GOLD RESERVE ACT OF 1934

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

SECOND SESSION

ON

S. 2366

**A BILL TO PROTECT THE CURRENCY SYSTEM OF THE
UNITED STATES, TO PROVIDE FOR THE BETTER
USE OF THE MONETARY GOLD STOCK OF
THE UNITED STATES, AND FOR
OTHER PURPOSES**

REVISED

JANUARY 19 TO 23, 1934

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THE GOLD RESERVE ACT OF 1934

FRIDAY, JANUARY 19, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met, pursuant to call, at 2 p.m., in room no. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Glass, Wagner, Barkley, Bulkley, Gore, Byrnes, Bankhead, Adams, Goldsborough, Townsend, Walcott, Carey, Couzens, Steiwer, and Kean.

The CHAIRMAN. The committee will come to order, please. This meeting has been called for a hearing on S. 2366, which will be made a part of the record.

[S. 2266, 73d Cong., 2d sess.]

A BILL To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be "The Gold Reserve Act of 1934."

SEC. 2. (a) Upon the approval of this Act, all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

(b) Section 16 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) The third sentence of the first paragraph is amended to read as follows: "They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank."

(2) So much of the third sentence of the second paragraph as precedes the proviso is amended to read as follows: "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates:"

(3) The first sentence of the third paragraph is amended to read as follows: "Every Federal Reserve bank shall maintain reserves in gold certificates or

lawful money of not less than thirty-five per centum against its deposits and reserves in gold certificates of not less than forty per centum against its Federal Reserve notes in actual circulation: *Provided, however*, That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(4) The fifth and sixth sentences of the third paragraph are amended to read as follows: "Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States."

(5) The fourth, fifth, and sixth paragraphs are amended to read as follows: "The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum of gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the forty per centum reserve hereinbefore required. The Board shall have the right acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section eighteen of this act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding Federal Reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent."

(6) The eighth paragraph is amended to read as follows:

"All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve act shall hereafter be held for such agent, under such rules and regu-

lations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safe-keeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purpose authorized by law."

(7) The sixteenth paragraph is amended to read as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury."

(8) The eighteenth paragraph is amended to read as follows:

"Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits."

SEC. 3. The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the conditions under which gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked: (a) for industrial, professional, and artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this Act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked, or held in custody for foreign or domestic account (except on behalf of the United States), only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations. Such regulations may exempt from the provisions of this section, in whole or in part, gold situated in the Philippine Islands or other places beyond the limits of the continental United States.

SEC. 4. Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody, in violation of this Act or of any regulations issued hereunder, or licenses issued pursuant thereto, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

SEC. 5. No gold shall hereafter be coined, and no gold coin shall hereafter be paid out or delivered by the United States: *Provided, however*, That coinage may continue to be executed by the mints of the United States for foreign countries in accordance with the act of January 29, 1874 (U.S.C., title 31, sec. 387). All gold coin of the United States shall be withdrawn from circulation, and, together with all other gold owned by the United States, shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treasury may direct.

SEC. 6. Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval of the President, no currency of the United States shall be redeemed in gold: *Provided, however*,

That gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States: *And provided further*, That the reserve for United States notes and for Treasury notes of 1890 and the security for gold certificates (including the gold certificates held in the Treasury for credits payable therein) shall be maintained in gold bullion equal to the dollar amounts required by law, and the reserve for Federal Reserve notes shall be maintained in gold certificates or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act, as heretofore and by this Act amended.

No redemptions in gold shall be made except in gold bullion bearing the stamp of a United States Mint or Assay Office in an amount equivalent at the time of redemption to the currency surrendered for such purpose.

Sec. 7. In the event that the weight of the gold dollar shall at any time be reduced, the resulting increase in value of the gold held by the United States (including the gold held as security for gold certificates and as a reserve for any United States notes and for Treasury notes of 1890) shall be covered into the Treasury as a miscellaneous receipt; and, in the event that the weight of the gold dollar shall at any time be increased, the resulting decrease in value of the gold held as a reserve for any United States notes and for Treasury notes of 1890, and as security for gold certificates shall be compensated by transfers of gold from the general fund, and there is hereby appropriated an amount sufficient to provide for such transfers and to cover the decrease in value of the gold in the general fund.

Sec. 8. Section 3700 of the Revised Statutes (U.S.C., title 31, sec. 734) is amended to read as follows:

"With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

Sec. 9. Section 3699 of the Revised Statutes (U.S.C., Tit. 31, Sec. 733) is amended to read as follows:

"The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however*, That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

Sec. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange, and such other instruments of credit or security as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of \$2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a "stabilization fund" (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, whose decisions shall be final and not be subject to review by any other officer of the United States. The Fund shall be available for expenditure, under the direction of the Secre-

tary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

Sec. 11. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary may deem necessary or proper to carry out the purposes of this Act.

Sec. 12. Paragraph b (2), of section 43, title III, of the Act approved May 12, 1933 (Public, No. 10, 73d Congress), is amended by adding two new sentences at the end thereof, reading as follows:

"Nor shall the weight of the gold dollar be fixed in any event at more than sixty per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate and distinct powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require."

Sec. 13. All actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made, or issued by the President of the United States or the Secretary of the Treasury, under the Act of March 9, 1933, or under Section 43 or Section 45 of Title III of the Act of May 12, 1933, are hereby approved, ratified, and confirmed.

Sec. 14. *Definitions.* As used in this Act the term "United States" means the Government of the United States; the term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "currency of the United States" means currency which is legal tender in the United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations; and the term "person" means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents. Wherever reference is made in this Act to equivalents as between dollars or currency of the United States and gold, one dollar or one dollar face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained to the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by this Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold nine tenths fine, as the President shall have fixed under such authority.

Sec. 15. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

Sec. 16. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed.

[Amendment intended to be proposed by Mr. Fletcher to the bill (S. 2366) to protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes, viz: On page 14, between lines 23 and 24, insert the following new section]

Sec. 14. (a) The Second Liberty Bond Act, as amended, is further amended as follows:

(1) By adding at the end of section 1 (U.S.C., title 31, sec. 752) a new paragraph, as follows:

"Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan, and he may make allotments in full or reject or reduce allotments upon any applications, whether or not the offering was made as a popular loan."

(2) By inserting in section 8 (U.S.C., title 31, sec. 771), after the words "certificates of indebtedness", a comma and the words "Treasury bills".

(3) By striking out the figures "\$7,500,000,000" where they appear in section 18 (U.S.C., title 31, sec. 753) and inserting in lieu thereof the figures "\$10,000,000,000".

(4) By adding thereto two new sections, as follows:

"Sec. 19. Notwithstanding any other provisions of law, any obligations authorized by this Act may be issued from the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills of the United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe."

"Sec. 20. The Secretary of the Treasury may issue any obligations authorized by this Act and maturing not more than one year from the date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final."

(b) Section 6 of the Victory Liberty Loan Act (U.S.C., title 31, sec. 767) is amended by striking out the words "for refunding purposes", together with the preceding comma, at the end of the first sentence of subsection (a).

(c) The Secretary of the Treasury is authorized to issue gold certificates, in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates.

Change section numbers of sections 14, 15, and 16 to 15, 16, and 17, respectively.

The CHAIRMAN. I think it would be proper to insert in the record the Executive order by the President with reference to gold, which Executive order was issued last spring; and also another Executive order by the President; and a statement by the Secretary of the Treasury, the opinion rendered by the Attorney General, the statement made by Governor Black. These documents have been offered before the committee when in executive session, and they will be made a part of the record.

(The papers referred to are as follows:)

[S. Doc. No. 114, 73d Cong., 2d sess.]

To the Congress:

In conformity with the progress we are making in restoring a fairer price level and with our purpose of arriving eventually at a less variable purchasing power for the dollar, I ask the Congress for certain additional legislation to improve our financial and monetary system. By making clear that we are establishing permanent metallic reserves in the possession and ownership of the Federal Government, we can organize a currency system which will be both sound and adequate.

The issuance and control of the medium of exchange which we call "money" is a high prerogative of government. It has been such for many centuries. Because they were scarce, because they could readily be subdivided and transported, gold and silver have been used either for money or as a basis for forms of money which in themselves had only nominal intrinsic value.

In pure theory, of course, a government could issue mere tokens to serve as money—tokens which would be accepted at their face value if it were certain that the amount of these tokens were permanently limited and confined to the total amount necessary for the daily cash needs of the community. Because this assurance could not always or sufficiently be given, governments have found that reserves or bases of gold and silver behind their paper or token currency added stability to their financial systems.

There is still much confusion of thought which prevents a world-wide agreement creating a uniform monetary policy. Many advocate gold as the sole basis of currency; others advocate silver; still others advocate both gold and silver whether as separate bases, or on a basis with a fixed ratio, or on a fused basis.

We hope that, despite present world confusion, events are leading to some future form of general agreement. The recent London agreement in regard to silver was a step, though only a step, in this direction.

At this time we can usefully take a further step, which we hope will contribute to an ultimate world-wide solution.

Certain lessons seem clear. For example, the free circulation of gold coins is unnecessary, leads to hoarding, and tends to a possible weakening of national financial structures in times of emergency. The practice of transferring gold from one individual to another or from the Government to an individual within a nation is not only unnecessary but is in every way undesirable. The transfer of gold in bulk is essential only for the payment of international trade balances.

Therefore it is a prudent step to vest in the government of a nation the title to and possession of all monetary gold within its boundaries and to keep that gold in the form of bullion rather than in coin.

Because the safe-keeping of this monetary basis rests with the Government, we have already called in the gold which was in the possession of private individual or corporations. There remains, however, a very large weight in gold bullion and coins which is still in the possession or control of the Federal Reserve banks.

Although under existing law there is authority, by Executive act, to take title to the gold in the possession or control of the Reserve banks, this is a step of such importance that I prefer to ask the Congress by specific enactment to vest in the United States Government title to all supplies of American-owned monetary gold, with provision for the payment therefor in gold certificates. These gold certificates will be, as now, secured at all times dollar for dollar by gold in the Treasury—gold for each dollar of such weight and fineness as may be established from time to time.

Such legislation places the right, title, and ownership to our gold reserves in the Government itself; it makes clear the Government's ownership of any added dollar value of the country's stock of gold which would result from any decrease of the gold content of the dollar which may be made in the public interest. It would also, of course, with equal justice, cast upon the Government the loss of such dollar value if the public interest in the future should require an increase in the amount of gold designated as a dollar.

The title to all gold being in the Government, the total stock will serve as a permanent and fixed metallic reserve which will change in amount only so far as necessary for the settlement of international balances or as may be required by a future agreement among the nations of the world for a redistribution of the world stock of monetary gold.

With the establishment of this permanent policy, placing all monetary gold in the ownership of the Government as a bullion base for its currency, the time has come for a more certain determination of the gold value of the American dollar. Because of world uncertainties, I do not believe it desirable in the public interest that an exact value be now fixed. The President is authorized by present legislation to fix the lower limit of permissible revaluation at 50 percent. Careful study leads me to believe that any revaluation at more than 60 percent of the present statutory value would not be in the public interest. I, therefore, recommend to the Congress that it fix the upper limit of permissible revaluation at 60 percent.

That we may be further prepared to bring some greater degree of stability to foreign exchange rates in the interests of our people, there should be added to the present power of the Secretary of the Treasury to buy and sell gold at home and abroad, express power to deal in foreign exchange as such. As a part of this power, I suggest that, out of the profits of any devaluation, there should be set up a fund of \$2,000,000,000 for such purchases and sales of gold, foreign exchange, and Government securities as the regulation of the currency, the maintenance of the credit of the Government, and the general welfare of the United States may require.

Certain amendments of existing legislation relating to the purchase and sale of gold and to other monetary matters would add to the convenience of handling current problems in this field. The Secretary of the Treasury is prepared to submit information concerning such changes to the appropriate committees of the Congress.

The foregoing recommendations relate chiefly to gold. The other principal precious metal—silver—has also been used from time immemorial as a metallic base for currencies as well as for actual currency itself. It is used as such by probably half the population of the world. It constitutes a very important part of our own monetary structure. It is such a crucial factor in much of the world's international trade that it cannot be neglected.

On December 21, 1933, I issued a proclamation providing for the coinage of our newly mined silver and for increasing our reserves of silver bullion, thereby putting us among the first nations to carry out the silver agreement entered into by 66 governments at the London Conference. This agreement is distinctly a step in the right direction and we are proceeding to perform our part of it.

All of the 66 nations agreed to refrain from melting or debasing their silver coins, to replace paper currency of small denominations with silver coins, and to refrain from legislation that would depreciate the value of silver in the world markets. Those nations producing large quantities of silver agreed to take specified amounts from their domestic production and those holding and using large quantities agreed to restrict the amount they would sell during the 4 years covered by the agreement.

If all these undertakings are carried out by the governments concerned, there will be a marked increase in the use and value of silver.

Governments can well, as they have in the past, employ silver as a basis for currency, and I look for a greatly increased use. I am, however, withholding any recommendation to the Congress looking to further extension of the monetary use of silver because I believe that we should gain more knowledge of the results of the London agreement and of our other monetary measures.

Permit me once more to stress two principles. Our national currency must be maintained as a sound currency which, insofar as possible, will have a fairly constant standard of purchasing power and be adequate for the purposes of daily use and the establishment of credit.

The other principle is the inherent right of government to issue currency and to be the sole custodian and owner of the base or reserve of precious metals underlying that currency. With this goes the prerogative of government to determine from time to time the extent and nature of the metallic reserve. I am confident that the National will well realize the definite purpose of the Government to maintain the credit of that Government and, at the same time, to provide a sound medium of exchange which will serve the needs of our people.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
January 15, 1934.

READ TO SENATE COMMITTEE ON BANKING AND CURRENCY BY THE HONORABLE
SECRETARY OF THE TREASURY ON JANUARY 16, 1934

MEMORANDUM

(For guidance of the press but not to be quoted as a Treasury statement)

The following were the chief developments today in the monetary situation:

1. The President sent a message to Congress asking for legislation supplementary to the Thomas amendment which would fix the upper limit of permissible revaluation of the gold content of the dollar at 60 percent of the present content. The President also asked that the present power of the Secretary of the Treasury to buy and sell gold at home and abroad should be widened and should be supplemented by express power to deal in foreign exchange as such and suggested that out of the proceeds of any devaluation a fund of \$2,000,000,000 be set up for such purchases and sales of gold, foreign exchange, and Government securities as the regulation of the currency, the maintenance of the credit of the Government and the general welfare of the United States may require. The message in addition, while noting that there is under existing law authority by Executive act to take title to the gold in possession or control of the Federal Reserve banks, asks Congress by specific enactment to vest in the United States Government title to all American-owned monetary gold with provision for the payment therefor in gold certificates which will be as now secured for each dollar by gold of such weight and fineness as may be established from time to time. It should be noted that under the present law gold certificates may be used and are being used as backing for note issues of the Federal Reserve banks and this will continue to be true after the withdrawal to the Treasury of the gold now held by the Federal Reserve banks.

2. In compliance with the request contained in the President's message there was introduced in Congress today a bill which makes the necessary amendments to existing law and provides the machinery for carrying out the

President's suggestion. The provisions of the bill may be summarized as follows:

Transfers to the United States the ownership and possession of all Federal Reserve bank gold (including that held by the Federal Reserve Board and Federal Reserve agents) and provides for payment therefor in gold certificates.

Authorizes the Federal Reserve banks to maintain reserves against Federal Reserve notes entirely in gold certificates.

Clarifies the Government's power to regulate the acquisition, transporting, melting or treating, import, export, or earmarking of gold.

Provides forfeiture of gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked in violation of this bill or regulations of the Secretary of the Treasury, and also a penalty equal to twice the value of the gold.

Provides that no gold shall hereafter be coined, and that no gold coin shall hereafter be paid out or delivered by the United States and that all gold coin of the United States shall be withdrawn from circulation and formed into bars. There is provision for releasing gold bars to pay foreign balances, and for industrial, professional, and artistic uses, and for other purposes not inconsistent with this bill.

Provides that no currency of the United States shall be redeemed in gold except to the extent permitted in regulations issued by the Secretary of the Treasury, with the approval of the President, but that gold certificates owned by Federal Reserve banks shall be redeemed at such times and in such amounts as in the judgment of the Secretary of the Treasury are necessary to maintain equal purchasing power of every kind of currency of the United States, and that the reserve for United States notes and for Treasury notes of 1890 and the security for gold certificates shall be maintained in gold bullion equal to the dollar amounts required by present law.

Establishes a method of accounting for the gain or loss in value of Treasury gold occasioned by any change in the weight of the gold dollar.

Clarifies present laws which authorize the purchase and sale of gold by the Secretary of the Treasury.

Establishes a stabilization fund and appropriates \$2,000,000,000 for the purpose, but only out of the profits on devaluation, which are directed to be covered into the Treasury under this bill; and provides that the President shall cause an audit to be made of such fund and a full report thereof included in the next succeeding annual report of the Secretary of the Treasury.

Limits the President's power to fix the weight of the gold dollar to weights between 50 and 60 percent of the present weight and makes it clear that his various powers under paragraph (b) (2) of the Thomas amendment are continuing and distinct.

Approves and confirms action taken by the President and the Secretary of the Treasury under the act of March 9, 1933, and sections 43 and 45 of the act of May 12, 1933.

3. The President issued an Executive order authorizing the United States mints and assay offices, subject to regulations of the Secretary of the Treasury, to receive on consignment gold which has not been held in noncompliance with Executive orders or orders of the Secretary of the Treasury issued under sections 2 and 3 of the act of March 9, 1933, or in noncompliance with any regulations or rulings made thereunder, or licenses issued pursuant thereto.

4. The Secretary of the Treasury announced that beginning tomorrow, the Federal Reserve Bank of New York, instead of the Reconstruction Finance Corporation, will purchase all domestic newly mined gold received on consignment by the mints and assay offices and the Secretary of the Treasury will purchase from the bank equivalent amounts of gold coins. The price to be paid until further notice will be \$34.45 per fine ounce, less $\frac{1}{4}$ of 1 percent for handling charges.

5. The Secretary of the Treasury issued an order fixing midnight of Wednesday, January 17, 1934, as the expiration of the period within which any gold coin, gold bullion, or gold certificates may be delivered to the Treasurer of the United States in compliance with his order of December 28, 1933. The order further provides that in the event any such gold or certificates withheld in noncompliance with the order are offered after January 17, 1934, there shall be paid therefor only such part or none of the amount otherwise payable as the Secretary may prescribe, and any balance shall be retained and applied to the penalty payable for failure to comply with the requirements of the order of December 28, 1933, and of this order.

6. The President issued two Executive orders relating to the subject of foreign exchange which, in effect, give to the Secretary of the Treasury authority by regulation further to restrict transactions in foreign exchange or to lessen from time to time such restrictions. The authority to regulate such exchange transactions is broadened to include authority over both the inflow and the outflow of capital or other money claims.

GOVERNOR BLACK'S RELEASE TO THE PRESS JANUARY 16, 1934

Mr. E. R. Black, Governor of the Federal Reserve Board, today issued the following statement:

For the past several weeks there have been conferences between the President, the Secretary of the Treasury, and representatives of the Reserve System upon two questions: first, the allocation of the increase in value of the Reserve System's gold consequent upon devaluation, and second, the transfer of the title to the Reserve System's gold to the Government prior to devaluation. We have felt that these two questions were not interdependent.

As to the first question, the Reserve board, after advising with the Governors of the Reserve banks, has felt that the Reserve banks should not be the beneficiaries of the enhanced value placed upon their gold holdings by a purely monetary policy of the Government, but on the contrary that such enhanced value arising solely through such monetary policy of the Government should enure to the Government. This feeling has been based upon the conviction that such enhanced value will result solely from a governmental policy and not from any action or effort on the part of the Reserve banks. This position has been expressed to the President.

The second question embracing the matter of title to the gold of the Reserve banks has similarly been discussed with the President and the Secretary of the Treasury by representatives of the Reserve System. The System has felt and has urged that this question was of such large import as to demand its determination by congressional legislation.

In line with this position, on December 29 I wrote the President regarding these two questions and in the course of that letter set forth the following reasons for congressional action:

"First. It relieves what is to me a serious difficulty presented to the Secretary in the question of his right to requisition gold of the Reserve System under the statute authorizing requisition of gold in protection of the currency system of the country.

"Second. It presents the opportunity to Congress of granting by congressional action protection to the Reserve System in event of future revaluation upward of the dollar.

"Third. It gives to Congress the right to allocate the profit upon gold in the event of devaluation.

"Fourth. It leaves to Congress the full question of legislation relative to the Reserve System and its currency, both creations of Congress.

"Fifth. It will obviate all chances of criticism upon the Reserve System and upon the administration in respect to the problem involved, and all uneasiness and unrest as to Reserve Banks and their credit and currency functions.

"May I earnestly urge that this congressional course is the straight, simple, legal course to all the ends desired.

"In conclusion, Mr. President, may I assure you that this suggestion is not written in the selfish interest of the Reserve banks, but in the interest of your administration and of the country, as an evidence of which I desire to repeat that the question of profit on our gold is not involved, as I have heard no other suggestion from any member of our Board or any Reserve bank than that any profit arising from a monetary policy of the Government should go to the Government."

Following this letter the President decided that the question of the transfer of the title to the System's gold should be referred to Congress for determination. I understand that the proposed bill is for this purpose.

The present security of Reserve note issues comprises eligible paper, governments, gold and gold certificates. The proposed bill names the same security, for note issues except that the gold proposed to be taken from the Reserve banks by the Treasury is to be replaced by gold certificates issued by the Treasury and

redeemable in gold by the Treasury at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States. The security for the gold certificates is maintained by the Treasury in gold bullion.

Federal Reserve notes under the new bill, as under the old law, are the obligations both of the Reserve bank issuing them and of the United States.

DEPARTMENT OF JUSTICE,
Washington, D.C., January 17, 1934.
Hon. DUNCAN U. FLETCHER,
Chairman Senate Committee on Banking and Currency,
United States Senate, Washington, D.C.

MY DEAR SENATOR FLETCHER: I am informed that your committee is desirous of obtaining my views as to the constitutionality of section 2 (a) of the proposed gold reserve bill.

My opinion on that question is contained in a communication addressed by me to the Secretary of the Treasury, and with his permission I take pleasure in transmitting to you a copy of that letter.

Very truly yours,

HOMER CUMMINGS,
Attorney General.

JANUARY 17, 1934.

THE SECRETARY OF THE TREASURY.

MY DEAR MR. SECRETARY: I am pleased to comply with your request for an expression of my views as to the constitutionality of section 2 (a) of the proposed gold reserve bill.

The section under consideration provides that all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and every Federal Reserve agent in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States. Payment is to be made in gold certificates in equivalent amounts of dollars.

The monetary gold stock may be taken by the Government in the exercise of its right of eminent domain. Such power extends to every form of property required for public use.

The Supreme Court observed in *Kohl v. United States* (91 U.S. 367, 371) that the right of eminent domain "is inseparable from sovereignty"; and in *United States v. Jones* (109 U.S. 513, 518) that it "belongs to every independent government."

The manner in which the power is exercised is within the control of the legislature. This principle was formulated in *Secombe v. Railroad Co.* (23 Wall. 108, 117), in the following language.

"It is no longer an open question in this country that the mode of exercising the right of eminent domain, in the absence of any provision in the organic law prescribing a contrary course, is within the discretion of the legislature. There is no limitation upon the power of the legislature in this respect, if the purpose be a public one, and just compensation be paid or tendered to the owner for the property taken."

Likewise, the necessity for the exercise of the power is a matter solely for legislative determination (*Monongahela Navigation Co. v. United States*, 148 U.S. 312, 327).

Unquestionably, the taking of gold for monetary purposes is for a public use.

The establishment and the regulation of a monetary system is one of the fundamental functions of government. The power to coin money and regulate the value thereof is expressly reposed in Congress by article I, section 8, clause 5, of the Constitution (*Veazie Bank v. Fenno*, 8 Wall. 533, 549). In fact, monetary gold is a commodity affected with public interest (*Ling Su Fan v. United States*, 218 U.S. 302).

The requirement for just compensation is completely satisfied by the provision for payment in gold certificates in equivalent amounts of dollars. Since the decision in the *Legal Tender Cases* (12 Wall. 457), it may no longer be successfully disputed that Congress may make paper money legal tender for the payment of all debts, public or private, and that the Government may discharge its obligations in currency of that type.

The amount of just compensation is determined as of the time of taking, and not as of some subsequent date. The mere fact that at a later period the property may acquire an enhanced value, or that there may be an accretion to the thing taken, does not increase the compensation to which the owner is entitled. Thus, in this instance, the value of the gold must be determined as of the moment that title passes to the United States. The mere fact that, if thereafter the weight of the gold dollar should be reduced, the value of the gold would become proportionately greater, does not serve to give the prior owner any right to secure increased reimbursement (*Brooks Scanlon Corp. v. United States*, 265 U.S. 106).

The measure of compensation must be the prevailing price. *Vogelstein v. United States*, 262 U.S. 337. The prevailing price of gold coin and gold bullion in the United States (other than newly mined gold) is fixed by statute. The act of March 14, 1900 (U.S. Code, title 31, sec. 314) prescribes that the weight of the gold dollar shall be 25 $\frac{1}{2}$ grains, nine-tenths fine, which in turn makes gold worth \$20.67 an ounce. That is the price that the owner of gold would have received at the mint, if he had presented it for deposit, prior to March 4, 1933. That is likewise the price that he would have received at any subsequent time if he surrendered it in accordance with the requirements of the Executive orders or the orders of the Secretary of the Treasury issued under the act of March 9, 1933. This is also the price that it is proposed to pay for the gold to be taken under section 2 of the bill under consideration. The conclusion seems inescapable that this provision safeguards the owners in their right to receive as just compensation the value prevailing at the time of taking.

The fact that the market price of gold in foreign countries is greater than the statutory price in the United States, avails the owners nothing. An owner of gold in the United States has no way of shipping the gold abroad, in view of the prohibition against the export of gold from this country, promulgated under the act of March 9, 1933. Consequently, an owner of gold in the United States is in no position to secure the so-called "world price", and, therefore, his gold is not worth more than the statutory price.

The prohibition of the export of gold is constitutional. Thus, in *Ling Su Fan v. United States* (218 U.S. 302) the Supreme Court upheld the validity of an act placing an embargo on the export of silver coin from the Philippine Islands, in spite of the contention that the result was a taking of property, because of the fact that in China silver bullion had a higher market value than its nominal coinage value in the Philippines.

The question has been raised as to whether the member banks have any right, title, and interest in the gold coin or bullion held by the Federal Reserve banks. In my opinion, this inquiry should be answered in the negative. The member banks have no claim against the assets of the Federal Reserve banks except as stockholders, and, of course, it cannot be contended that in taking any of the assets of a corporation any compensation should be paid directly to the stockholders thereof. Every Federal Reserve bank is now required to maintain a gold reserve against circulating notes and deposits (Federal Reserve Act, sec. 16; U.S. Code, title 12, sec. 413). Any part of such reserve may be used as part of the collateral for Federal Reserve notes, which is required to be deposited with Federal Reserve agents. The mere fact that the source of some or all of such gold may be deposits made by member banks with the Federal Reserve banks, is immaterial. As soon as the gold is deposited with the Federal Reserve bank, it loses its identity, and the relationship between the Federal Reserve bank and the member bank becomes that of debtor and creditor.

The gold reserves of the Federal Reserve banks must not be confused with the reserve balances which every member is required, by section 19 of the Federal Reserve Act, to maintain with its Federal Reserve bank. The reserve balances of the member banks need not be in gold.

In closing, I desire to call to your attention the following expressions of the Supreme Court in *Ling Su Fan v. United States* (218 U.S. 302, 310):

"Conceding the title of the owner of such coins, yet there is attached to such ownership those limitations which public policy may require by reason of their quality as a legal tender and as a medium of exchange. These limitations are due to the fact that public law gives to such coinage a value which does not attach as a mere consequence of intrinsic value. Their quality as a

legal tender is an attribute of law aside from their bullion value. They bear, therefore, the impress of sovereign power which fixes value and authorizes their use in exchange."

The foregoing considerations lead me to the conclusion that section 2 (a) of the bill is constitutional.

Very truly yours,

HOMER CUMMINGS,
Attorney General.

STATEMENT OF E. R. BLACK, GOVERNOR OF THE FEDERAL RESERVE BOARD, TO THE SENATE COMMITTEE ON BANKING AND CURRENCY DURING A MEETING ON WEDNESDAY, JANUARY 17, 1934

I would like to make perfectly clear to the committee the position of the Federal Reserve Board upon some of the different matters presented in this bill.

In order to do this it will be necessary to inform the committee of events leading to consideration of these matters by the Board and the Reserve banks and the action by the Board upon them.

There are three primary matters involved:

- (1) Devaluation of the dollar by changing its gold content.
- (2) The allocation of the so-called "profit" in event of devaluation upon the gold holdings of the Reserve System.
- (3) The transfer of the title to the gold of the System from the Reserve banks to the Treasury.

The Board has recognized that the Congress has expressed itself on the governmental policy as to devaluation in the Thomas amendment and the Board has given consideration to that policy only in connection with its effect in producing the other two questions involved, to wit: So-called "profits" upon and title to the System's gold holdings. These two questions have been considered with Governmental officials.

I have always maintained that these two questions were not interdependent and that the solution of one of them was not of necessity involved in the solution of the other.

On the question of the so-called profits upon our gold I have felt that these profits arose from a purely monetary policy of the Government, and arising from such purely monetary policy should and could go to the Government independently of and irrespective of the question of where the title to the Reserve System's gold was vested.

This conviction has been held irrespective of my knowledge that this gold has been bought by the System under authority of law to buy and sell gold, and under the usual practice of Reserve banks authorized by provisions of the Federal Reserve Act, and under the usual practice and procedure of the central banks of every country.

The fact remains that this enhanced value of the System's gold has resulted from no work or investment or act or effort on the part of the System, but solely from a governmental policy, and having so resulted, the profit, or enhanced value, as I prefer to call it, should enure to the Government. This position was made plain in my conferences with the Government officials. My conclusion as to the allocation of this enhanced value of our gold involved in no way the necessity of a change in the title to that gold.

The profits could be allocated to the Government by a simple amendment to the Thomas amendment providing that in the event of devaluation such profit should go to the Government through one of the legal expedients necessary to that end. I have urged that this method be followed in the matter of such profits. Under such method the profits could be paid over by the Reserve banks to the Government in any form meeting the Government's requirements. This would leave the gold in the Reserve banks where it could continue as the base of the System's currency and credit operations, to be held even under such restrictions as are now placed upon gold by the Government. At the same time the Government would have received all enhanced value upon that gold as the result of devaluation. This is the process followed in France upon the devaluation of the franc.

On the 14th day of December 1933, at a conference with Government officials, there arose for the first time the question of the Government's taking title to the gold of the Reserve banks. The opinion was expressed that the Government had this right under section 11, paragraph (n) of the Federal Reserve Act,

with which law you gentlemen are familiar, and based on this opinion a plan was proposed for taking title to the gold under this law.

I objected seriously to the plan and asked time for its consideration. This time was granted and I thereupon presented in writing my objections to the plan and to its purpose.

A suggestion was then made that the Reserve banks could voluntarily exchange their gold for gold certificates of the character described in this bill.

A conference of the governors of the Reserve banks was held and the two plans, namely, the one requisitioning the gold under section 11, paragraph (n) of the Federal Reserve Act, or the voluntary exchange of the gold for gold certificates, were considered. The governors asked for an expression of the Board's views in the matter and these views were expressed as follows:

In event, first, the President should write the Board with respect to the plan embracing action under the Thomas amendment and the placing of title of the gold holdings of the Federal Reserve System in the Treasury so that profits on that gold would accrue to the Government if, as, and when devaluation is effected; and, second, if the Secretary of the Treasury should requisition the gold holdings of the Federal Reserve System under section 11 (n) of the Federal Reserve Act and should offer gold certificates in payment of such gold holdings, then the Federal Reserve Board feels—

(1) That it should express its strong conviction that appropriate legislation by Congress should be had covering this question of profits upon the gold holdings of the Federal Reserve System, although it is of opinion that this profit, being the result of the monetary policy of the Government, should ultimately go to the Government.

(2) That neither the Federal Reserve banks nor the Federal Reserve agents can enter into voluntary agreement covering the transfer of the title in this gold to the Government because of their responsibility as officers and directors of the Reserve bank and of their trusteeship in connection with their duties as such, and

(3) That if demand is made by the Secretary of the Treasury under section 11 (n) of the Federal Reserve Act for the gold holdings of the Federal Reserve System, then the Federal Reserve banks and the Federal Reserve agents should yield possession of the gold to the Treasury or its representatives and receive any gold certificates tendered to them, but only under protest, fully preserving all legal rights.

The conference with Government officials decided at my request that these two plans should be considered by the directors of the 12 Reserve banks. The governors returned to their banks and called meetings of their respective directors.

I had urged all along that this question of the title to the Reserve System's gold was of such large import and of so great consequence to the Nation that it should be solved by Congress and that Congress should determine where the title to this gold should vest, whether in the Reserve banks or in the Treasury.

This position was taken because—

(1) We were advised by counsel that section 11, paragraph (n) of the Reserve Act was not applicable under its terms to the Reserve banks and that under that law the Secretary was not authorized to requisition our gold, and that there was no other law so empowering him.

(2) That the officers and directors of the Reserve banks, as trustee, should not exchange their gold for the certificates described in this bill, because as such trustees they had no right to so change the character of the assets entrusted to them.

(3) That Congress only could have the right under the law to determine this question.

(4) That we felt the gold should remain with the central banks of the Nation for manifest purposes of currency and credit needs.

While the directors of the Reserve banks were considering these matters I called upon the President and presented the reasons against the two plans suggested and urged the necessity of congressional action in determination of these questions. The President agreed with me and on December 29 the matter was withdrawn from consideration of the Board and the Reserve banks, and as I understand it has now been presented to Congress for its determination.

In reference to this gold I will simply state that at present it is pledged under the law as security for \$3,238,810,000 of Federal Reserve notes issued by the 12 banks and constitutes the reserves required by law upon notes issued by the Reserve banks and upon deposits made with Reserve banks.

It may be of value to the committee to have before it a statement of the gold in the Treasury and in the Reserve banks. The following 2 pages give this information as of recent date.

The gold coin and the gold bullion held by the Reserve banks speak for themselves. The gold certificates held by the Reserve banks were issued by the Treasury under authority in the United States Code, title 31, section 429, the first paragraph of which is as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin with the Treasury, or any Assistant Treasurer of the United States, in sums of not less than twenty dollars and to issue gold certificates therefor in denominations of not less than ten dollars, and the amount so deposited shall be retained in the Treasury and held for the payment of such certificates on demand and used for no other purpose."

The Reserve banks' gold in the Federal Reserve agents' gold fund deposited with the Treasury amounts to \$1,105,174,000 and is provided for in section 16 of the Reserve Act. This gold is part of the collateral held by the Federal Reserve agent for Federal Reserve notes and deposited as authorized by law in the custody of the Treasury.

The gold of the Reserve banks in the gold-redemption fund in the Treasury amounts to \$40,888,000 and is provided for in section 16 of the Reserve Act and is gold deposited by the Reserve banks with the Treasury for the purpose of redeeming in gold Federal Reserve notes.

The gold of the Reserve banks in the gold-settlement fund in the custody of the Treasury amounts to \$673,403,000 and is authorized by the same section of the Reserve Act and is gold placed by the Reserve banks with the Treasury for clearing purposes between the Reserve banks.

The Board is of opinion that both the allocation of the profits upon the System's gold and the question of title to its gold are properly matters for the determination of Congress.

Tabulation attached to statement of E. R. Black, governor of Federal Reserve Board

Total gold in the Treasury and in Federal Reserve banks is—\$4, 012, 918, 000
Of this \$4,012,918,000, \$3,201,941,000 is held in the different agencies of the Treasury as follows:

San Francisco Mint.....	1, 439, 799, 000
New York assay office.....	879, 610, 000
Philadelphia Mint.....	503, 075, 000
Denver Mint.....	365, 022, 000
Seattle assay office.....	2, 194, 000
New Orleans assay office.....	1, 308, 000
Cashier's office, Washington.....	10, 933, 000
Total	3, 201, 941, 000

The remaining \$810,977,000 of gold coin and bullion is located in the Federal Reserve banks as follows:

New York.....	\$406, 430, 000
Chicago.....	184, 707, 000
San Francisco.....	92, 905, 000
Boston.....	47, 616, 000
Richmond.....	29, 443, 000
Cleveland.....	22, 738, 000
Philadelphia.....	20, 548, 000
St. Louis.....	12, 476, 000
Minneapolis.....	11, 848, 000
Kansas City.....	11, 289, 000
Atlanta.....	9, 172, 000
Dallas.....	11, 805, 000
Total	810, 977, 000

In addition to gold coin and bullion the Federal Reserve banks hold gold certificates as follows:

New York	\$264,797,000
Chicago	314,059,000
San Francisco	29,160,000
Boston	48,644,000
Richmond	23,717,000
Cleveland	89,332,000
Philadelphia	92,870,000
St. Louis	16,180,000
Dallas	12,478,000
Minneapolis	18,462,000
Kansas City	18,087,000
Atlanta	15,010,000
Total	942,796,000

Gold of the Federal Reserve banks in the Treasury is as follows:

Collateral for gold certificates held by Federal Reserve banks	\$942,794,000
Federal Reserve agents' gold fund (collateral for Federal Reserve notes)	1,105,174,000
Gold settlement fund	673,403,000
Gold redemption fund	40,888,000
Total	2,762,259,000

The total gold reserves of the 12 Federal Reserve banks are \$3,573,236,000

Gold in the Treasury, other than Federal Reserve gold, is 439,682,000

Of this, \$219,391,000 is collateral for gold certificates in circulation outside of Federal Reserve banks and \$156,039,000 is reserves against United States notes, \$30,329,000 against redemption funds for national bank notes and Federal Reserve bank notes, and \$33,923,000 free gold.

Gold certificates in circulation outside of Federal Reserve banks, \$217,391,000, and gold in circulation outside of Federal Reserve and Treasury, \$311,045,000.

THE SECRETARY OF THE TREASURY,
Washington, January 18, 1934.

HON. DUNCAN U. FLETCHER,
United States Senate.

MY DEAR SENATOR FLETCHER: In his message to the Congress, the President said:

"Certain amendments of existing legislation relating to the purchase and sale of gold and to other monetary matters would add to the convenience of handling current problems in this field. The Secretary of the Treasury is prepared to submit information concerning such changes to the appropriate committees of the Congress."

The miscellaneous minor matters here referred to are covered by the attached draft, which is suggested as a new section 14 to the bill now before your committee, sections 14, 15, and 16 becoming sections 15, 16, and 17, respectively.

This addition to the bill is designed to accomplish the following purposes.

(a) To enable the Treasury to make an offering of bonds that will be particularly appealing to certain large investors such as insurance companies.

(b) The proceeds of all other United States obligations may now be deposited in designated depositories, which arrangement facilitates their sale. It is desired to include Treasury bills.

(c) It is desired to increase by 2½ billion dollars the amount of Treasury notes which may be issued, the purpose being to facilitate the marketing of Government obligations which this will do because of the greater demand for this type of security.

(d) Treasury notes may now be issued to provide for the purchase or redemption of notes. Certificates and bills may be issued to provide for the purchase or redemption of certificates or bills. It will facilitate Government refunding to have authority to purchase any class of Government securities with the proceeds of any other class.

(e) At the present time, we are authorized to issue only Treasury bills on a discount basis. Authority is desired to issue any obligations of the United States with a maturity of not longer than 1 year on a discount basis.

(f) At the present time, the Treasury authority to purchase bonds and notes for the sinking fund is restricted to bonds and notes which were issued for refunding purposes or were outstanding on the date named in the statute. It is desirable to be able to use the sinking fund to purchase bonds or notes which have been issued for purposes other than refunding.

(g) Gold certificates may not now be issued against gold unless deposited by private persons for the issuance of gold certificates, except that the Secretary may pay out or issue gold certificates in payment of interest on the public debt. There should be authority to issue gold certificates against any gold in the Treasury except the gold reserves.

Very truly yours,

H. MORGENTHAU, Jr.,
Secretary of the Treasury.

TREASURY DEPARTMENT'S RELEASE TO MORNING PAPERS, JANUARY 18, 1934

The Secretary of the Treasury issued instructions tonight (Jan. 17), authorizing the Treasurer of the United States, the United States Mints and Assay Offices, and the Federal Reserve banks to continue, until further notice, to receive gold coin and gold certificates and to pay therefor in other currency at their face value. They were also authorized to receive gold bullion and to pay for it at the statutory rate of \$20.67 per ounce.

The instructions issued tonight are made subject to the rights reserved in the Secretary's order of January 15 setting midnight of January 17 as the final date on which gold coin, gold certificates, and gold bullion might be delivered in compliance with the Secretary's order of December 28, 1933.

Inquiries have been received by the Treasury Department from business men who desire to know whether they may continue to accept gold coin and certificates in payment for merchandise and services. The instructions which were sent out tonight will provide a way by which they may dispose of receipts of gold coin and gold certificates and receive payment for them.

INSTRUCTIONS SENT BY THE SECRETARY OF THE TREASURY ON JANUARY 17, 1934, TO THE TREASURER OF THE UNITED STATES, THE UNITED STATES MINTS AND ASSAY OFFICES, AND THE FISCAL AGENTS OF THE UNITED STATES, CONCERNING WRONGFULLY WITHHELD GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES DELIVERED AFTER JANUARY 17, 1934

The order of the Secretary of the Treasury dated January 15, 1934, supplementing the order of December 28, 1933, requiring the delivery of gold coin, gold bullion, and gold certificates to the Treasurer of the United States provides, in part, as follows:

"* * * I, HENRY MORGENTHAU, Jr., Secretary of the Treasury, do hereby fix midnight of Wednesday, January 17, 1934, as the expiration of the period within which any gold coin, gold bullion, or gold certificates may be paid and delivered to the Treasurer of the United States in compliance with the requirements contained in such order of December 28, 1933, as amended.

"In the event that any gold coin, gold bullion, or gold certificates withheld in noncompliance with said order and of this order are offered after January 17, 1934, to the Secretary of the Treasury, the Treasurer of the United States, any United States mint or assay office, or to any fiscal agent of the United States, there shall be paid therefor only such part or none of the amount otherwise payable therefor as the Secretary of the Treasury may from time to time prescribe and the whole or any balance shall be retained and applied to the penalty payable for failure to comply with the requirements of such order and of this order. The acceptance of any such coin, bullion, or certificates after January 17, 1934, whether or not a part or all of the amount otherwise payable therefor is so retained, shall be without prejudice to the right to collect by suit or otherwise the full penalty provided in section 11 (n) of the Federal Reserve Act, as amended, less such portion of the penalty as may have been retained as hereinbefore provided."

Subject to the rights reserved in said order of January 15, 1934, supplementing the order of December 28, 1933, requiring the delivery of gold coin, gold bullion,

and gold certificates to the Treasurer of the United States, and without prejudice to the right to alter or amend these instructions from time to time by notice to the Treasurer of the United States, the United States Mints and Assay Offices, and the Federal Reserve banks, I do hereby prescribe that in the event that any gold coin, gold bullion, or gold certificates held in noncompliance with said order of December 28, 1933, as amended, and said order of January 15, 1934, are offered after January 17, 1934, to the Secretary of the Treasury, the Treasurer of the United States, any United States Mint or Assay Office or to any fiscal agent of the United States, the Secretary of the Treasury, the Treasurer of the United States, any United States Mint or Assay Office, and the fiscal agents of the United States shall pay for such gold coin and gold certificates the dollar face amount thereof, and for gold bullion \$20.67 an ounce. Member banks of the Federal Reserve System may receive such gold coin, gold bullion, and gold certificates for account of the Treasurer of the United States and forthwith forward the same to the Secretary of the Treasury, the Treasurer of the United States, any United States Mint or Assay Office or any fiscal agent of the United States, whichever is nearest.

H. MORGENTHAU, Jr.,
Secretary of the Treasury.

A PROCLAMATION BY THE PRESIDENT OF THE UNITED STATES OF AMERICA
(No. 2039)

[BANK HOLIDAY, MAR. 6-9, 1933, INCLUSIVE]

Whereas there have been heavy and unwarranted withdrawals of gold and currency from our banking institutions for the purpose of hoarding; and

Whereas continuous and increasingly extensive speculative activity abroad in foreign exchange has resulted in severe drains on the Nation's stocks of gold; and

Whereas these conditions have created a national emergency; and

Whereas it is in the best interests of all bank depositors that a period of respite be provided with a view to preventing further hoarding of coin, bullion or currency, or speculation in foreign exchange and permitting the application of appropriate measures to protect the interests of our people; and

Whereas it is provided in section 5(b) of the act of October 6, 1917 (40 Stat. L. 411), as amended, "That the President may investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange and the export, hoarding, melting, or earmarking of gold or silver coin or bullion or currency * * *"; and

Whereas it is provided in section 16 of the said act "that whoever shall willfully violate any of the provisions of this act or of any license, rule, or regulation issued thereunder, and whoever shall willfully violate, neglect, or refuse to comply with any order of the President issued in compliance with the provisions of this act, shall, upon conviction, be fined not more than \$10,000, or, if a natural person, imprisoned for not more than 10 years, or both; * * *";

Now, therefore, I, Franklin D. Roosevelt, President of the United States of America, in view of such national emergency and by virtue of the authority vested in me by said Act and in order to prevent the export, hoarding, or earmarking of gold or silver coin or bullion or currency, do hereby proclaim, order, direct, and declare that from Monday, the 6th day of March, to Thursday, the 9th day of March, 1933, both dates inclusive, there shall be maintained and observed by all banking institutions and all branches thereof located in the United States of America, including the territories and insular possessions, a bank holiday, and that during said period all banking transactions shall be suspended. During such holiday, excepting as hereinafter provided, no such banking institution or branch shall pay out, export, earmark, or permit the withdrawal or transfer in any manner or by any device whatsoever, of any gold or silver coin or bullion or currency or take any other action which might facilitate the hoarding thereof; nor shall any such banking institution or branch pay out deposits, make loans or discounts, deal in foreign exchange, transfer credits from the United States to any place abroad, or transact any other banking business whatsoever.

During such holiday, the Secretary of the Treasury, with the approval of the President and under such regulations as he may prescribe, is authorized and empowered (a) to permit any or all of such banking institutions to perform any or all of the usual banking functions; (b) to direct, require, or permit the issuance of clearing house certificates or other evidences of claims against assets of banking institutions, and (c) to authorize and direct the creation in such banking institutions of special trust accounts for the receipt of new deposits which shall be subject to withdrawal on demand without any restriction or limitation and shall be kept separately in cash or on deposit in Federal Reserve Banks or invested in obligations of the United States.

As used in this order the term "banking institutions" shall include all Federal Reserve banks, national banking associations, banks, trust companies, savings banks, building and loan associations, credit unions, or other corporations, partnerships, associations or persons, engaged in the business of receiving deposits, making loans, discounting business paper, or transacting any other form of banking business.

In witness whereof, I have hereunto set my hand and caused the seal of the United States to be affixed.

Done in the city of Washington this 6th day of March, 1 a.m., in the year of our Lord 1933, and of the independence of the United States, the one hundred and fifty-seventh.

[SEAL]

FRANKLIN D. ROOSEVELT.

By the president:

CORDELL HULL,

Secretary of State.

[PUBLIC—No. 1—73D CONGRESS]

[H.R. 1491]

AN ACT To provide relief in the existing national emergency in banking, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress hereby declares that a serious emergency exists and that it is imperatively necessary speedily to put into effect remedies of uniform national application.

TITLE I

SECTION 1. The actions, regulations, rules, licenses, orders and proclamations heretofore or hereafter taken, promulgated, made, or issued by the President of the United States or the Secretary of the Treasury since March 4, 1933, pursuant to the authority conferred by subdivision (b) of section 5 of the Act of October 6, 1917, as amended, are hereby approved and confirmed.

SEC. 2. Subdivision (b) of section 5 of the act of October 6, 1917 (40 Stat. L. 411), as amended, is hereby amended to read as follows:

"(b) During time of war or during any other period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit between or payments by banking institutions as defined by the President, and export, hoarding, melting, or earmarking of gold or silver coin or bullion or currency, by any person within the United States or any place subject to the jurisdiction thereof; and the President may require any person engaged in any transaction referred to in this subdivision to furnish under oath, complete information relative thereto, including the production of any books of account, contracts, letters or other papers, in connection therewith in the custody or control of such person, either before or after such transaction is completed. Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both. As used in this subdivision the term 'person' means an individual, partnership, association, or corporation."

SEC. 3. Section 11 of the Federal Reserve Act is amended by adding at the end thereof the following new subsection:

"(n) Whenever in the judgment of the Secretary of the Treasury such action is necessary to protect the currency system of the United States, the Secretary of the Treasury, in his discretion, may require any or all individuals, partnerships, associations and corporations to pay and deliver to the Treasurer of the United States any or all gold coin, gold bullion, and gold certificates owned by such individuals, partnerships, associations and corporations. Upon receipt of such gold coin, gold bullion or gold certificates, the Secretary of the Treasury shall pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States. The Secretary of the Treasury shall pay all costs of the transportation of such gold bullion, gold certificates, coin, or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any individual, partnership, association, or corporation failing to comply with any requirement of the Secretary of the Treasury made under this subsection shall be subject to a penalty equal to twice the value of the gold or gold certificates in respect of which such failure occurred, and such penalty may be collected by the Secretary of the Treasury by suit or otherwise."

SEC. 4. In order to provide for the safer and more effective operation of the National Banking System and the Federal Reserve System, to preserve for the people the full benefits of the currency provided for by the Congress through the National Banking System and the Federal Reserve System, and to relieve interstate commerce of the burdens and obstructions resulting from the receipt on an unsound or unsafe basis of deposits subject to withdrawal by check, during such emergency period as the President of the United States by proclamation may prescribe, no member bank of the Federal Reserve System shall transact any banking business except to such extent and subject to such regulations, limitations and restrictions as may be prescribed by the Secretary of the Treasury, with the approval of the President. Any individual, partnership, corporation, or association, or any director, officer or employee thereof, violating any of the provisions of this section shall be deemed guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than \$10,000 or, if a natural person, may, in addition to such fine, be imprisoned for a term not exceeding ten years. Each day that any such violation continues shall be deemed a separate offense.

TITLE II

SEC. 201. This title may be cited as the "Bank Conservation Act."

SEC. 202. As used in this title, the term "bank" means (1) any national banking association, and (2) any bank or trust company located in the District of Columbia and operating under the supervision of the Comptroller of the Currency; and the term "State" means any State, Territory, or possession of the United States, and the Canal Zone.

SEC. 203. Whenever he shall deem it necessary in order to conserve the assets of any bank for the benefit of the depositors and other creditors thereof, the Comptroller of the Currency may appoint a conservator for such bank and require of him such bond and security as the Comptroller of the Currency deems proper. The conservator, under the direction of the Comptroller, shall take possession of the books, records, and assets of every description of such bank, and take such action as may be necessary to conserve the assets of such bank pending further disposition of its business as provided by law. Such conservator shall have all the rights, powers, and privileges now possessed by or hereafter given receivers of insolvent national banks and shall be subject to the obligations and penalties, not inconsistent with the provisions of this title, to which receivers are now or may hereafter become subject. During the time that such conservator remains in possession of such bank, the rights of all parties with respect thereto shall, subject to the other provisions of this title, be the same as if a receiver had been appointed therefor. All expenses of any such conservatorship shall be paid out of the assets of such bank and shall be a lien thereon which shall be prior to any other lien provided by this Act or otherwise. The conservator shall receive as salary an amount no greater than that paid to employees of the Federal Government for similar services.

SEC. 204. The Comptroller of the Currency shall cause to be made such examinations of the affairs of such bank as shall be necessary to inform him as to the financial condition of such bank, and the examiner shall make a report thereon to the Comptroller of the Currency at the earliest practicable date.

SEC. 205. If the Comptroller of the Currency becomes satisfied that it may safely be done and that it would be in the public interest, he may, in his discretion, terminate the conservatorship and permit such bank to resume the transaction of its business subject to such terms, conditions, restrictions, and limitations as he may prescribe.

SEC. 206. While such bank is in the hands of the conservator appointed by the Comptroller of the Currency, the Comptroller may require the conservator to set aside and make available for withdrawal by depositors and payment to other creditors, on a ratable basis, such amounts as in the opinion of the Comptroller may safely be used for this purpose; and the Comptroller may, in his discretion, permit the conservator to receive deposits, but deposits received while the bank is in the hands of the conservator shall not be subject to any limitation as to payment or withdrawal, and such deposits shall be segregated and shall not be used to liquidate any indebtedness of such bank existing at the time that a conservator was appointed for it, or any subsequent indebtedness incurred for the purpose of liquidating any indebtedness of such bank existing at the time such conservator was appointed. Such deposits received while the bank is in the hands of the conservator shall be kept on hand in cash, invested in the direct obligations of the United States, or deposited with a Federal Reserve bank. The Federal Reserve banks are hereby authorized to open and maintain separate deposit accounts for such purpose, or for the purpose of receiving deposits from State officials in charge of State banks under similar circumstances.

SEC. 207. In any reorganization of any national banking association under a plan of a kind which, under existing law, requires the consent, as the case may be, (a) of depositors and other creditors or (b) of stockholders or (c) of both depositors and other creditors and stockholders, such reorganization shall become effective only (1) when the Comptroller of the Currency shall be satisfied that the plan of reorganization is fair and equitable as to all depositors, other creditors and stockholders and is in the public interest and shall have approved the plan subject to such conditions, restrictions, and limitations as he may prescribe and (2) when, after reasonable notice of such reorganization, as the case may require, (A) depositors and other creditors of such bank representing at least seventy-five per centum in amount of its total deposits and other liabilities as shown by the books of the national banking association or (B) stockholders owning at least two thirds of its outstanding capital stock as shown by the books of the national banking association or (C) both depositors and other creditors representing at least seventy-five per centum in amount of the total deposits and other liabilities and stockholders owning at least two thirds of its outstanding capital stock as shown by the books of the national banking association, shall have consented in writing to the plan of reorganization: *Provided, however,* That claims of depositors or other creditors which will be satisfied in full under the provisions of the plan or reorganization shall not be included among the total deposits and other liabilities of the national banking association in determining the seventy-five per centum thereof as above provided. When such reorganization becomes effective, all books, records, and assets of the national banking association shall be disposed of in accordance with the provisions of the plan and the affairs of the national banking association shall be conducted by its board of directors in the manner provided by the plan and under the conditions, restrictions, and limitations which may have been prescribed by the Comptroller of the Currency. In any reorganization which shall have been approved and shall have become effective as provided herein, all depositors and other creditors and stockholders of such national banking association, whether or not they shall have consented to such plan of reorganization, shall be fully and in all respects subject to and bound by its provisions, and claims of all depositors and other creditors shall be treated as if they had consented to such plan of reorganization.

SEC. 208. After fifteen days after the affairs of a bank shall have been turned back to its board of directors by the conservator, either with or without a reorganization as provided in section 207 hereof, the provisions of section 206 of this title with respect to the segregation of deposits received while it is in the hands of the conservator and with respect to the use of such deposits to liquidate the indebtedness of such bank shall no longer be effective: *Provided,* That before the conservator shall turn back the affairs of the bank to its board of directors he shall cause to be published in a newspaper published in the city, town, or county in which such bank is located, and if no newspaper is published in such city, town, or county, in a newspaper to be selected by the Comptroller of the Currency published in the State in which the bank is located, a notice in form approved by the Comptroller, stating the date on which the affairs of the bank will be returned

to its board of directors and that the said provisions of section 206 will not be effective after fifteen days after such date; and on the date of the publication of such notice the conservator shall immediately send to every person who is a depositor in such bank under section 206 a copy of such notice by registered mail addressed to the last known address of such person as shown by the records of the bank, and the conservator shall send similar notice in preferred stock shall have been paid in full the par value of such stock plus all accumulated dividends.

SEC. 209. Conservators appointed pursuant to the provisions of this title shall be subject to the provisions of and to the penalties prescribed by section 5209 of the Revised Statutes (U.S.C., title 12, sec. 592); and sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U.S.C., title 18, secs. 202, 203, 204, 205, 206, and 207), insofar as applicable, are extended to apply to contracts, agreements, proceedings, dealings, claims and controversies by or with any such conservator or the Comptroller of the Currency under the provisions of this title.

SEC. 210. Nothing in this title shall be construed to impair in any manner any powers of the President, the Secretary of the Treasury, the Comptroller of the Currency, or the Federal Reserve Board.

SEC. 211. The Comptroller of the Currency is hereby authorized and empowered, with the approval of the Secretary of the Treasury, to prescribe such rules and regulations as he may deem necessary in order to carry out the provisions of this title. Whoever violates any rule or regulation made pursuant to this section shall be deemed guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than \$5,000, or imprisoned not more than one year, or both.

TITLE III

SEC. 301. Notwithstanding any other provision of law, any national-banking association may, with the approval of the Comptroller of the Currency and by vote of shareholders owning a majority of the stock of such association, upon not less than five days' notice, given by registered mail pursuant to action taken by its board of directors, issue preferred stock in such amount and with such par value as shall be approved by said Comptroller, and make such amendments to its articles of association as may be necessary for this purpose; but, in the case of any newly organized national-banking association which has not yet issued common stock, the requirement of notice to and vote of shareholders shall not apply. No issue of preferred stock shall be valid until the par value of all stock so issued shall be paid in.

SEC. 302. (a) The holders of such preferred stock shall be entitled to cumulative dividends at a rate not exceeding 6 per centum per annum, but shall not be held individually responsible as such holders for any debts, contracts, or engagements of such association and shall not be liable for assessments to restore impairments in the capital of such association as now provided by law with reference to holders of common stock. Notwithstanding any other provision of law, the holders of such preferred stock shall have such voting rights, and such stock shall be subject to retirement in such manner and on such terms and conditions, as may be provided in the articles of association with the approval of the Comptroller of the Currency.

(b) No dividends shall be declared or paid on common stock until the cumulative dividends on the preferred stock shall have been paid in full; and, if the association is placed in voluntary liquidation or a conservator or a receiver is appointed therefor, no payments shall be made to the holders of the common stock until the holders of the preferred stock shall have been paid in full the par value of such stock plus all accumulated dividends.

SEC. 303. The term "common stock" as used in this title means stock of national-banking associations other than preferred stock issued under the provisions of this title. The term "capital" as used in provisions of law relating to the capital of national-banking associations shall mean that amount of unimpaired common stock plus the amount of preferred stock outstanding and unimpaired; and the term "capital stock", as used in section 12 of the Act of March 14, 1900, shall mean only the amount of common stock outstanding.

SEC. 304. If in the opinion of the Secretary of the Treasury any national-banking association or any State bank or trust company is in need of funds for capital purposes either in connection with the organization or reorganization of such association, State bank, or trust company or otherwise, he may, with the approval of the President, request the Reconstruction Finance Corporation to subscribe for preferred stock in such association, State bank, or trust company, or to make

loans secured by such stock as collateral, and the Reconstruction Finance Corporation may comply with such request. The Reconstruction Finance Corporation may, with the approval of the Secretary of the Treasury, and under such rules and regulations as he may prescribe, sell in the open market or otherwise the whole or any part of the preferred stock of any national-banking association, State bank, or trust company acquired by the Corporation pursuant to this section. The amount of notes, bonds, debentures, and other such obligations which the Reconstruction Finance Corporation is authorized and empowered to issue and to have outstanding at any one time under existing law is hereby increased by an amount sufficient to carry out the provisions of this section.

TITLE IV

SEC. 401. The sixth paragraph of section 18 of the Federal Reserve Act is amended to read as follows:

"Upon the deposit with the Treasurer of the United States, (a) of any direct obligations of the United States or (b) of any notes, drafts, bills of exchange, or bankers' acceptances acquired under the provisions of this Act, any Federal Reserve bank making such deposit in the manner prescribed by the Secretary of the Treasury shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, duly registered and countersigned. When such circulating notes are issued against the security of obligations of the United States, the amount of such circulating notes shall be equal to the face value of the direct obligations of the United States so deposited as security; and, when issued against the security of notes, drafts, bills of exchange and bankers' acceptances acquired under the provisions of this act, the amount hereof shall be equal to not more than 90 per centum of the estimated value of such notes, drafts, bills of exchange and bankers' acceptances so deposited as security. Such notes shall be the obligations of the Federal Reserve bank procuring the same, shall be in form prescribed by the Secretary of the Treasury, shall be receivable at par in all parts of the United States for the same purposes as are national-bank notes, and shall be redeemable in lawful money of the United States on presentation at the United States Treasury or at the bank of issue. The Secretary of the Treasury is authorized and empowered to prescribe regulations governing the issuance, redemption, replacement, retirement, and destruction of such circulating notes and the release and substitution of security therefor. Such circulating notes shall be subject to the same tax as is provided by law for the circulating notes of national banks secured by 2 per centum bonds of the United States. No such circulating notes shall be issued under this paragraph after the President has declared by proclamation that the emergency recognized by the President by proclamation of March 6, 1933, has terminated, unless such circulating notes are secured by deposits of bonds of the United States bearing the circulation privilege. When required to do so by the Secretary of the Treasury, each Federal Reserve agent shall act as agent of the Treasurer of the United States or of the Comptroller of the Currency, or both, for the performance of any of the functions which the Treasurer or the Comptroller may be called upon to perform in carrying out the provisions of this paragraph. Appropriations available for distinctive paper and printing United States currency or national-bank currency are hereby made available for the production of the circulating notes of Federal Reserve banks herein provided; but the United States shall be reimbursed by the Federal Reserve bank to which such notes are issued for all expenses necessarily incurred in connection with the procuring of such notes and all other expenses incidental to their issue, redemption, replacement, retirement, and destruction."

SEC. 402. Section 10 (b) of the Federal Reserve Act, as amended, is further amended to read as follows:

"SEC. 10 (b). In exceptional and exigent circumstances, and when any member bank has no further eligible and acceptable assets available to enable it to obtain adequate credit accommodations through rediscounting at the Federal Reserve bank or any other method provided by this Act other than that provided by section 10 (a), any Federal Reserve bank, under rules and regulations prescribed by the Federal Reserve Board, may make advances to such member bank on its time or demand notes secured to the satisfaction of such Federal Reserve bank. Each such note shall bear interest at a rate not less than 1 per centum per annum higher than the highest discount rate in effect at such Federal Reserve bank on the date of such note. No advance shall be made under this section after March 3, 1934, or after the expiration of such additional period not exceeding one year as the President may prescribe."

SEC. 403. Section 13 of the Federal Reserve Act, as amended, is amended by adding at the end thereof the following new paragraph:

"Subject to such limitations, restrictions, and regulations as the Federal Reserve Board may prescribe, any Federal Reserve bank may make advances to any individual, partnership, or corporation on the promissory notes of such individual, partnership, or corporation secured by direct obligations of the United States. Such advances shall be made for periods not exceeding ninety days and shall bear interest at rates fixed from time to time by the Federal reserve bank, subject to the review and determination of the Federal Reserve Board."

TITLE V

SEC. 501. There is hereby appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$2,000,000, which shall be available for expenditure, under the direction of the President and in his discretion, for any purpose in connection with the carrying out of this Act.

SEC. 502. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Approved March 9, 1933, 8:30 p.m.

A PROCLAMATION BY THE PRESIDENT OF THE UNITED STATES OF AMERICA No. (2040)

CONTINUING IN FORCE THE BANK HOLIDAY PROCLAMATION OF MARCH 6, 1933

Whereas, on March 6, 1933, I, Franklin D. Roosevelt, President of the United States of America, by proclamation declared the existence of a national emergency and proclaimed a bank holiday extending from Monday the 6th day of March to Thursday the 9th day of March, 1933, both dates inclusive, in order to prevent the export, hoarding, or earmarking of gold or silver coin, or bullion or currency, or speculation in foreign exchange; and

Whereas, under the act of March 9, 1933, all proclamations heretofore or hereafter issued by the President pursuant to the authority conferred by section 5 (b) of the act of October 6, 1917, as amended, are approved and confirmed; and

Whereas, said national emergency still continues, and it is necessary to take further measures extending beyond March 9, 1933, in order to accomplish such purposes:

Now, therefore, I, Franklin D. Roosevelt, President of the United States of America, in view of such continuing national emergency and by virtue of the authority vested in me by section 5 (b) of the act of October 6, 1917 (40 Stat.L., 411) as amended by the act of March 9, 1933, do hereby proclaim, order, direct, and declare that all the terms and provisions of said proclamation of March 6, 1933, and the regulations and orders issued thereunder are hereby continued in full force and effect until further proclamation by the President.

In witness whereof I have hereunto set my hand and have caused the seal of the United States to be affixed.

Done in the District of Columbia, this 9th day of March, in the year of our Lord 1933, and of the independence of the United States the one hundredth and fifty-seventh.

[SEAL]

FRANKLIN D. ROOSEVELT.

By the President:

CORDELL HULL,

Secretary of State.

EXECUTIVE ORDER NO. 6073

REGULATIONS CONCERNING THE OPERATION OF BANKS

By virtue of the authority vested in me by section 5 (b) of the act of October 6, 1917 (40 Stat.L. 411), as amended by the act of March 9, 1933, and by section 4 of the said act of March 9, 1933, and by virtue of all other authority vested in me, I hereby issue the following Executive order:

The Secretary of the Treasury is authorized and empowered under such regulations as he may prescribe to permit any member bank of the Federal Reserve System and any other banking institution organized under the laws of the United States to perform any or all of their usual banking functions, except as otherwise prohibited.

The appropriate authority having immediate supervision of banking institutions in each State or any place subject to the jurisdiction of the United States is authorized and empowered under such regulations as such authority may prescribe to permit any banking institution in such State or place, other than banking institutions covered by the foregoing paragraph, to perform any or all of their usual banking functions, except as otherwise prohibited.

All banks which are members of the Federal Reserve System, desiring to reopen for the performance of all usual and normal banking functions, except as otherwise prohibited, shall apply for a license therefor to the Secretary of the Treasury. Such application shall be filed immediately through the Federal Reserve banks. The Federal Reserve bank shall then transmit such applications to the Secretary of the Treasury. Licenses will be issued by the Federal Reserve bank upon approval of the Secretary of the Treasury. The Federal Reserve banks are hereby designated as agents of the Secretary of the Treasury for the receiving of applications and the issuance of licenses in his behalf and upon his instructions.

Until further order, no individual, partnership, association, or corporation, including any banking institution, shall export or otherwise remove or permit to be withdrawn from the United States or any place subject to the jurisdiction thereof any gold coin, gold bullion, or gold certificates, except in accordance with regulations prescribed by or under license issued by the Secretary of the Treasury.

No permission to any banking institution to perform any banking functions shall authorize such institution to pay out any gold coin, gold bullion, or gold certificates except as authorized by the Secretary of the Treasury, nor to allow withdrawal of any currency for hoarding, nor to engage in any transaction in foreign exchange except such as may be undertaken for legitimate and normal business requirements, for reasonable traveling and other personal requirements, and for the fulfillment of contracts entered into prior to March 6, 1933.

Every Federal Reserve bank is authorized and instructed to keep itself currently informed as to transactions in foreign exchange entered into or consummated within its district and shall report to the Secretary of the Treasury all transactions in foreign exchange which are prohibited.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
March 10, 1933

TREASURY DEPARTMENT'S IMMEDIATE RELEASE TO THE SUPERINTENDENTS OF
BANKS OF EACH STATE, MARCH 10, 1933

All banks of the country are now prohibited under the proclamation of March 9 of the President from conducting any banking business except as specifically authorized by rule, regulation, or license of the Secretary of the Treasury issued under that proclamation. In view of the passage of the emergency bank bill by Congress yesterday, and under the terms of that bill, and section 5 of the act of October 6, 1917, as amended by that bill, the Secretary of the Treasury will be authorized to permit any sound bank which is a member of the Federal Reserve

System, whether State or national, to reopen for business as promptly as possible. It is the intention of the Secretary of the Treasury, however, to permit no member bank to reopen at any time on a full 100-percent basis unless or until the Secretary is satisfied that such bank is a sound-going institution. Any member bank not clearly within this category will not be opened unless or until further investigation discloses that it is a sound-going institution, or unless or until a reorganization of some character will permit the bank to be classified as a sound-going institution.

Any member bank not opened 100 percent under this procedure will be permitted to continue to perform only such specific transactions as are now authorized or may hereafter be authorized by specific regulation or license of the Secretary of the Treasury.

In view of the fact that neither the Treasury nor the Federal Reserve authorities have sufficient information upon which to consider applications for reopening by such State banks as are not members of the Federal Reserve System, the President will by decree authorize the appropriate State authorities in each State to give licenses to banks under their jurisdiction other than members of the Federal Reserve System, to open for the usual normal business, or in their judgment, and under the terms of the Presidential proclamation, to permit of such reopening under such restrictions and limitations as they in their judgment may deem wise. It is to be expected, however, that State superintendents in granting licenses under this authority will take under consideration in determining their own policy the general principle to be adopted by the Treasury as respects member banks that in the interests of the depositors and of the country as a whole, only sound institutions will be permitted to carry on all of their usual functions to the end that no bank shall be reopened for business on any basis that will run the risk of being forced to close again because of demands which it is not in a position to satisfy.

W. H. WOODIN,
Secretary of the Treasury.

**TREASURY DEPARTMENT'S IMMEDIATE RELEASE TO THE SUPERINTENDENTS OF
BANKS OF EACH STATE MARCH 11, 1933**

As announced by the President this afternoon, a definite program for the reopening of banks throughout the country has been determined by the Secretary of the Treasury. In accordance with this program, the Secretary of the Treasury is prepared upon application through Federal Reserve banks to issue to banking institutions which are members of the Federal Reserve System, whether national or State, located in each of the 12 Federal Reserve bank cities licenses to open Monday morning. The Secretary of the Treasury will not issue licenses to any member bank, State or national, located outside those 12 cities to open before Tuesday.

State authorities having supervision over banking institutions located at such cities which are not members of the Federal Reserve System are requested to cooperate by permitting such banking institutions to open for business on Monday morning in all cases where they find them qualified to do so on the basis indicated in previous telegram of March 10. The Secretary of the Treasury will not permit any member bank, State or national, to open in any such Federal Reserve city unless opened for normal business on an unrestricted basis, except so far as affected by legal contracts between the banks and depositors with respect to withdrawals or notice of withdrawals.

In accordance with the announcement of the President, the Secretary of the Treasury is prepared upon application through the Federal Reserve banks to issue licenses to reopen on Tuesday morning to Federal Reserve member banks located in any city having an active and recognized clearing-house association, and upon like application licenses to member banks located elsewhere for reopening on Wednesday morning. As previously stated, however, the Secretary of the Treasury will not permit the reopening of member banks, State or national, on any of these days except on an unrestricted basis, as above indicated. It must be understood that the restrictions in the President's proclamation against the payment of gold, gold certificates, or bullion or the payment of currency for hoarding purposes and foreign-exchange transactions will apply to all banking institutions, member and nonmember, State, or national until further notice.

W. H. WOODIN,
Secretary of the Treasury.

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
March 13, 1933.

EMERGENCY BANKING REGULATION No. 25:

Under the authority of the President's proclamation of March 6 and March 9, 1933, declaring and continuing a bank holiday, the following regulation is prescribed:

"Pending the determination by the Treasury Department of a suitable procedure for licensing the delivery of gold for use in trade, profession or art, Federal Reserve banks are hereby authorized to deliver upon request therefor gold in amounts deemed by such bank to be reasonably required for legitimate and customary uses in trade, profession or art, provided such request is accompanied by affidavit of the person requesting such gold stating the amount of unmanufactured gold on hand and the facts making it necessary to obtain such gold for the purpose of maintaining employment.

"All banks licensed to open for usual and normal functions are permitted to carry out any transaction necessary to complete the delivery of any gold authorized by any Federal Reserve bank to be delivered in accordance with such request."

EXECUTIVE ORDER No. 6080

REGULATIONS CONCERNING APPOINTMENT OF CONSERVATORS FOR STATE BANKS,
MEMBERS OF FEDERAL RESERVE SYSTEM

By virtue of the authority vested in me by section 5(b) of the act of October 6, 1917 (40 Stat.L. 411) as amended by the act of March 9, 1933 and by section 4 of the said act of March 9, 1933, and by virtue of all other authority vested in me, I hereby issue the following Executive order.

Whenever the appropriate authority having immediate supervision of any banking institution located in any State or place subject to the jurisdiction of the United States, which is a member of the Federal Reserve System and which has not been licensed by the Secretary of the Treasury to resume its usual banking functions, shall deem it necessary or advisable in order to conserve the assets of such banking institution for the benefit of the depositors or other creditors, such authority may, in accordance with the provisions of the applicable laws of such State or place, appoint such appropriate official as may be authorized under such laws to conserve the assets of such banking institution pending further disposition of its business as provided by such laws.

This order shall not authorize any such member bank to reopen for the performance of usual and normal functions until it shall have received a license from the Secretary of the Treasury as provided in Executive order of March 10, 1933.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
March 13, 1933.

EXECUTIVE ORDER No. 6102

FORBIDDING THE HOARDING OF GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES

By virtue of the authority vested in me by section 5 (b) of the act of October 6, 1917, as amended by section 2 of the act of March 9, 1933, entitled "An act to provide relief in the existing national emergency in banking, and for other purposes", in which amendatory act Congress declared that a serious emergency exists, I, Franklin D. Roosevelt, President of the United States of America, do declare that said national emergency still continues to exist, and pursuant to said section do hereby prohibit the hoarding of gold coin, gold bullion, and gold certificates within the continental United States by individuals, partnerships, associations, and corporations, and do hereby prescribe the following regulations for carrying out the purposes of this order:

SECTION 1. For the purposes of this regulation, the term "hoarding" means the withdrawal and withholding of gold coin, gold bullion, or gold certificates from the recognized and customary channels of trade. The term "person" means any individual, partnership, association, or corporation.

SEC. 2. All persons are hereby required to deliver, on or before May 1, 1933, to a Federal Reserve bank or a branch or agency thereof, or to any member bank of the Federal Reserve System, all gold coin, gold bullion, and gold cer-

tificates now owned by them or coming into their ownership on or before April 28, 1933, except the following:

(a) Such amount of gold as may be required for legitimate and customary use in industry, profession, or art within a reasonable time, including gold prior to refining and stocks of gold in reasonable amounts for the usual trade requirements of owners mining and refining such gold.

(b) Gold coin and gold certificates in an amount not exceeding in the aggregate \$100 belonging to any one person; and gold coins having a recognized special value to collectors of rare and unusual coins.

(c) Gold coin and bullion earmarked or held in trust for a recognized foreign government or foreign central bank or the Bank of International Settlements.

(d) Gold coin and bullion licensed for other proper transactions (not involving hoarding) including gold coin and bullion imported for reexport or held pending action on applications for export licenses.

SEC. 3. Until otherwise ordered, any person becoming the owner of any gold coin, gold bullion, or gold certificates after April 28, 1933, shall, within 3 days after receipt thereof, deliver the same in the manner prescribed in section 2; unless such gold coin, gold bullion, or gold certificates are held for any of the purposes specified in paragraphs (a), (b), or (c) of section 2; or unless such gold coin or gold bullion is held for purposes specified in paragraph (d) of section 2 and the person holding it is, with respect to such gold coin or bullion, a licensee or applicant for license pending action thereon.

SEC. 4. Upon receipt of gold coin, gold bullion, or gold certificates delivered to it in accordance with sections 2 or 3, the Federal Reserve bank or member bank will pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States.

SEC. 5. Member banks shall deliver all gold coin, gold bullion, and gold certificates owned or received by them (other than as exempted under the provisions of sec. 2) to the Federal Reserve banks of their respective districts and receive credit or payment therefor.

SEC. 6. The Secretary of the Treasury, out of the sum made available to the President by section 501 of the act of March 9, 1933, will in all proper cases pay the reasonable costs of transportation of gold coin, gold bullion, or gold certificates delivered to a member bank or Federal Reserve bank in accordance with sections 2, 3, or 5 hereof, including the cost of insurance, protection, and such other incidental costs as may be necessary, upon production of satisfactory evidence of such costs. Voucher forms for this purpose may be procured from Federal Reserve banks.

SEC. 7. In cases where the delivery of gold coin, gold bullion, or gold certificates by the owners thereof within the time set forth above will involve extraordinary hardship or difficulty, the Secretary of the Treasury may, in his discretion, extend the time within which such delivery must be made. Applications for such extensions must be made in writing under oath, addressed to the Secretary of the Treasury and filed with a Federal Reserve bank. Each application must state the date to which the extension is desired, the amount and location of the gold coin, gold bullion, and gold certificates in respect of which such application is made and the facts showing extension to be necessary to avoid extraordinary hardship or difficulty.

SEC. 8. The Secretary of the Treasury is hereby authorized and empowered to issue such further regulations as he may deem necessary to carry out the purposes of this order and to issue licenses thereunder, through such officers or agencies as he may designate, including licenses permitting the Federal Reserve banks and member banks of the Federal Reserve System, in return for an equivalent amount of other coin, currency, or credit, to deliver, earmark, or hold in trust gold coin and bullion to or for persons showing the need for the same for any of the purposes specified in paragraphs (a), (c), and (d) of section 2 of these regulations.

SEC. 9. Whoever willfully violates any provision of this Executive order or of these regulations, or of any rule, regulation, or license issued thereunder may be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than 10 years, or both; and any officer, director, or agent of any corporation who knowingly participates in any such violation may be punished by a like fine, imprisonment, or both.

This order and these regulations may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
April 5, 1933.

EXECUTIVE ORDER No. 6111

RELATING TO FOREIGN EXCHANGE AND THE EARMARKING AND EXPORT OF GOLD COIN OR BULLION OR CURRENCY

By virtue of the authority vested in me by section 5 (b) of the act of October 6, 1917, as amended by section 2 of the act of March 9, 1933, entitled "An act to provide relief in the existing national emergency in banking, and for other purposes", in which amendatory act Congress declared that a serious emergency exists, I, Franklin D. Roosevelt, President of the United States of America, do declare that said national emergency still continues to exist and pursuant to said section and by virtue of all other authority vested in me, do hereby issue the following Executive order:

1. Until further order, the earmarking for foreign account and the export of gold coin, gold bullion, or gold certificates from the United States or any place subject to the jurisdiction thereof are hereby prohibited, except that the Secretary of the Treasury, in his discretion and subject to such regulations as he may prescribe, may issue licenses authorizing the export of gold coin and bullion (a) earmarked or held in trust for a recognized foreign government or foreign central bank or the Bank for International Settlements, (b) imported for reexport or gold in reasonable amounts for usual trade requirements of refiners importing gold-bearing materials under agreement to export gold, (c) actually required for the fulfillment of any contract entered into prior to the date of this order, by an applicant who in obedience to the Executive order of April 5, 1933, has delivered gold coin, gold bullion, or gold certificates, and (d), with the approval of the President, for transactions which he may deem necessary to promote the public interest.

2. Until further order, the Secretary of the Treasury is authorized, through any agency that he may designate, to investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit from any banking institution within the United States or any place subject to the jurisdiction thereof to any foreign branch or office of such banking institution or to any foreign bank or banker, and the export or withdrawal of currency from the United States or any place subject to the jurisdiction of the United States, by any individual, partnership, association, or corporation within the United States or any place subject to the jurisdiction thereof; and the Secretary of the Treasury may require any individual, partnership, association, or corporation engaged in any transaction referred to herein to furnish under oath, complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such individual, partnership, association, or corporation either before or after such transaction is completed.

3. The provisions relating to foreign exchange transactions contained in the Executive order of March 10, 1933, shall remain in full force and effect except as amended or supplemented by this order and by regulations issued hereunder.

4. Applicants who have gold coin, gold bullion, or gold certificates in their possession, or who in obedience to the Executive order of April 5, 1933, have delivered gold coin, gold bullion, or gold certificates shall be entitled to licenses as provided in section 8 of said Executive order for amounts not exceeding the equivalent of such coin, bullion, or certificates held or delivered. The Secretary may in his discretion issue or decline to issue any other licenses under said Executive order, which shall in all other respects remain in full force and effect.

5. Whoever willfully violates any provision of this Executive order or of any rule, regulation, or license issued thereunder may be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than 10 years, or both; and any officer, director, or agent of any corporation who knowingly participates in any such violation may be punished by a like fine, imprisonment, or both.

This order may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
April 20, 1933.

TREASURY DEPARTMENT REGULATIONS RELATING TO LICENSING THE PURCHASE
AND EXPORT OF GOLD, APRIL 29, 1933

ARTICLE I. MISCELLANEOUS PROVISIONS

SECTION 1. Authority for regulations.—In pursuance of the provisions of section 5 (b) of the act of October 6, 1917, as amended by section 2 of the act of March 9, 1933, and the Executive orders of the President dated March 10, 1933, April 5, 1933, and April 20, 1933, these regulations are prescribed.

SEC. 2. Definitions.—For the purposes of these regulations, the term "person" means an individual, partnership, association or corporation; and the term "United States" means the continental United States, including Alaska.

SEC. 3. Licenses nontransferable.—Licenses or permits issued or granted under these regulations shall not be transferred.

SEC. 4. Scope.—These regulations shall be operative within the United States as defined, unless otherwise indicated.

SEC. 5. Penalties.—Whoever willfully violates any provision of these regulations or of any license issued hereunder may be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than 10 years, or both; and any officer, director or agent of any corporation who knowingly participates in any such violation may be punished by a like fine, imprisonment, or both.

ARTICLE II. PURCHASE OF GOLD FOR USE IN INDUSTRY, PROFESSION OR ART

SECTION 1. Eligible applicants.—Any person having a legitimate and customary use for gold in industry, profession or art (including research and scientific work), or any person customarily supplying gold to others for such use (hereinafter called a "dealer"), may file with a Federal Reserve bank an application to purchase such quantity of gold as may be required for legitimate and customary use within a reasonable time.

SEC. 2. Applications.—Such application shall be filed in duplicate, executed under oath and verified before an officer duly authorized to administer oaths, and shall contain (a) the name and address of the applicant, (b) the industry, profession or art or business in which the applicant is engaged, (c) the amount of gold usually required for use in the applicant's business for a period of 90 days, (d) the amount of gold used or sold during the preceding calendar year, (e) the amount and a description of all gold on hand at the date of the application, (f) the amount of gold applied for, (g) a statement that the applicant will use such gold as he may be permitted to purchase only for the legitimate and customary requirements of industry, profession or art, or for sale exclusively in industry, profession, or art, and (h) a statement that no other application is pending.

SEC. 3. Purchase of gold.—Upon receipt of the application and after making such investigation of the case as it may deem advisable, the Federal Reserve bank, if satisfied that the gold is necessary for the legitimate and customary requirements of the applicant's business, industry, profession, or art, within a reasonable time, may permit the applicant to purchase such quantity of gold (not in excess of the amount applied for) as may be necessary for such use upon payment therefor of an equivalent amount of coin or currency coined or issued under the laws of the United States. The applicant shall keep an exact record of the disposition of such gold, and, in the case of a dealer furnishing gold for use in industry, profession, or art, such dealer shall keep a record which shall show the amounts and dates of sales and the names and addresses of the purchasers. Such records shall be available for examination by a representative of the Treasury Department for at least 1 year after date of the disposition of the gold. The gold so purchased shall be used or disposed of only in accordance with this article and the Executive order of April 5, 1933. Dealers withdrawing gold under this article shall require of the persons who purchase gold from them an affidavit that the gold so purchased will be used exclusively in the industry, profession, or art in which such purchasers are engaged.

SEC. 4. Prior regulation revoked.—Emergency Banking Regulation No. 25, issued March 13, 1933, is hereby revoked.

ARTICLE III. EXPORT OF GOLD COIN OR GOLD BULLION

SECTION 1. License required.—No gold coin, gold bullion, or gold certificates shall be exported from the United States or any place subject to the jurisdiction thereof, or earmarked for foreign account unless a license therefor shall first

have been obtained from the Secretary of the Treasury in accordance with this article or article IV of these regulations. Licenses may be issued, in the discretion of the Secretary, authorizing the export of gold coin and gold bullion: (a) Earmarked or held in trust for a recognized foreign government or foreign central bank or the Bank for International Settlements; (b) imported for reexport;¹ (c) actually required for the fulfillment of any contract calling for payment or delivery of gold coin or bullion, entered into prior to April 20, 1933, by an applicant who in obedience to the Executive order of April 5, 1933, has delivered gold coin, gold bullion, or gold certificates in accordance with such order; or (d) with the approval of the President, for transactions which he may deem necessary to promote the public interest.

SEC. 2. Application for licenses.—Application for license under section 1 to export from the United States or any place subject to the jurisdiction thereof any gold coin or gold bullion shall be made to the Secretary of the Treasury. Each such application shall be executed in duplicated under oath and verified before an officer duly authorized to administer oaths, and shall state in detail (a) the name and address of the applicant, (b) the name and address of the owner of the gold to be exported, (c) the amount and a description of gold coin or gold bullion and the location thereof, (d) the port from which export will be made, (e) the name and address of the consignee, and (f) the nature of the transaction and the facts making necessary the export. In the case of an application for a license under section 1 (c) of this article, the application, in addition to the above, shall state in detail, (1) the amount respectively of the gold coin, gold bullion or gold certificates delivered in obedience to the Executive order of April 5, 1933, and the date and place of such delivery, and (2) the amount of gold coin or gold bullion actually required for the fulfillment of the contract. A certified copy of the contract or obligation shall accompany the application.

SEC. 3. Filing of application.—The application shall be filed with a Federal Reserve bank, and such bank, after making such investigation of the case as it may deem necessary, shall transmit the original of such application to the Secretary of the Treasury, together with (a) such supplemental information as it may deem appropriate and (b) a recommendation as to whether the license should be granted or denied. A copy of the application shall be retained by the Federal Reserve bank for its records.

SEC. 4. Issuance of license.—If the Secretary of the Treasury in his discretion determines to grant a license upon an application filed under section 3, he will authorize the Federal Reserve bank through which the application was transmitted to issue on his behalf a license to export a specified amount of gold coin or gold bullion, and such bank shall thereupon issue such license to the applicant. If the license applied for is not granted, the bank through which the application was transmitted will be advised and such bank shall thereupon so notify the applicant.

SEC. 5. License.—Each license for the export of gold coin or bullion shall be numbered serially and shall bear (a) the date of issue, (b) the name and address of the licensee, (c) the name and address of the consignee, (d) the amount and description of the gold licensed, (e) the port of export, and (f) a statement "This license shall expire 15 days from date of issue".

SEC. 6. Notification of issuance of license.—At the time the license is issued, the issuing Federal Reserve bank shall transmit a copy thereof to the collector of customs at the port of export designated thereon. No collector of customs shall permit the export of any gold coin or bullion under this article except upon surrender of a license to export, a copy of which has been received by him from the Federal Reserve bank issuing such license.

SEC. 7. Expiration of license.—All licenses to export gold coin or bullion issued under this article shall expire 15 days after date of issue and any person holding a license who fails to export gold coin or bullion in accordance with the terms of the license shall forthwith deliver such gold coin or bullion to a Federal Reserve bank.

ARTICLE IV. IMPORT FOR SMELTING AND/OR REFINING AND EXPORT

SECTION 1. Notation upon entry.—Upon the formal entry into the United States of gold-bearing ores, or any other gold-bearing materials imported into the United States for smelting and/or refining under an agreement providing for the export of gold bullion, the importer shall notify the collector of customs at the

¹ Export of gold by refiners importing gold-bearing materials is covered by art. IV of these regulations.

port where the gold-bearing ore or material is formally entered that the importation is made under such agreement. The collector shall make a notation on the entry to this effect and forward a copy of the entry to the United States Assay Office at New York, N. Y., or to the United States Mint at San Francisco, Calif., whichever is designated by the importer.

SEC. 2. *Sampling and assaying.*—Promptly upon the receipt of each importation of gold-bearing ore or material at the plant where it is first to be treated, it shall be weighed, sampled and assayed for gold content. A reserve commercial sample shall be retained at such plant for at least one year from the date the importation was received by the plant unless the assay is sooner verified by the Treasury Department.

SEC. 3. *Plant records.*—The importer shall cause an exact record, covering each importation, to be kept at the plant of first treatment. The record shall show the gross wet weight of the importation, the weight of containers, if any, the net wet weight, the percentage and weight of moisture, the net dry weight, the gold content shown by the settlement assay, and the amount of gold bullion required to be exported under the agreement. An attested copy of such record shall be filed promptly with the Assay Office or the Mint, whichever has been designated to receive a copy of the entry.

SEC. 4. *Application for export license.*—Not later than 15 days from the date of entry, the importer shall file an application with the Assay Office or the Mint, whichever has been designated to receive a copy of the entry, for a license to export gold bullion not in excess of the amount shown by the settlement sheet covering the importation. Such application shall be filed in duplicate, executed under oath and verified before an officer duly authorized to administer oaths, and shall show (a) the name and address of the applicant, (b) the port at which the importation was formally entered, (c) the entry number, (d) the date of entry, (e) the plant at which the importation was first treated, (f) the gross wet weight, (g) the weight of the containers, if any, (h) the net wet weight, (i) the percentage and weight of moisture, (j) the net dry weight, (k) the gold content, (l) the amount of gold bullion required to be exported under the agreement, and (m) the name and address of the proposed consignee of the exportation. The application shall be accompanied by two duly attested copies of the settlement sheet.

SEC. 5. *Issuance of serial numbered certificate.*—If the superintendent of the assay office or of the Mint is satisfied as to the accuracy of the data shown on such application, he shall issue to the importer a dated serial numbered certificate which shall show the amount of gold specified by the application and the amount specified by the settlement sheet. The Director of the Mint shall prescribe the form of such certificate.

SEC. 6. *Issuance of export license.*—Upon delivery to the assay office or the Mint, within 120 days from the date it was issued, of the serial numbered certificate the superintendent of the assay office or Mint shall issue to the importer a license to export gold bullion in the amount applied for but not in excess of the amount specified by the settlement sheet as shown on such certificate.

SEC. 7. *Licenses.*—Each license for the export of gold bullion under this article shall be numbered serially and shall bear (a) the date of issue, (b) the name and address of the licensee, (c) the name and address of the consignee, (d) the amount and description of the gold licensed, (e) the port of export, and (f) a statement "This license shall expire 15 days from date of issue."

SEC. 8. *Notification of issuance of license.*—At the time the license is issued, the issuing assay office or Mint shall transmit a copy thereof to the collector of customs at the port of export designated thereon. No collector of customs shall permit the export of any gold bullion under this article except upon surrender of a license to export, a copy of which has been received by him from the assay office or Mint issuing the license.

SEC. 9. *Expiration of license.*—All licenses to export gold bullion issued under this article shall expire 15 days after date of issue and any person holding a license who fails to export the gold bullion in accordance with the terms of the license shall forthwith deliver such bullion to a Federal Reserve bank.

ARTICLE V. ACQUISITION OR RETENTION OF GOLD COIN, GOLD BULLION OR GOLD CERTIFICATES FOR PROPER TRANSACTIONS NOT INVOLVING HOARDING

SECTION 1. *Licenses for proper transactions and for purposes not covered in preceding articles.*—Any person showing the need for gold coin or gold bullion for a proper transaction not involving hoarding or for gold coin or gold bullion for a

purpose specified in the Executive order of April 5, 1933, and not covered by the foregoing articles of these regulations, may make application to the Secretary of the Treasury for a license to purchase, or if such coin or bullion is already in his possession, to retain such coin or bullion, in amounts as may be reasonably necessary for such proper transaction or purpose. Applications shall be filed with any Federal Reserve bank. The application shall be filed in duplicate, executed under oath and verified before an officer duly authorized to administer oaths and shall contain (a) the name and address of the applicant, (b) the amount of gold coin or gold bullion desired to be purchased or retained, (c) the amount and description of the gold coin or bullion on hand, if any, at the date of the application, (d) the proper transaction or purpose to which the gold coin or gold bullion will be devoted and the facts making necessary its purchase or retention, (e) such other facts as will enable the Secretary of the Treasury to determine whether the transaction is proper, and (f) a statement that the applicant will use such gold coin or gold bullion as he may be permitted to purchase or retain only for the transaction or purpose set forth in the application. In the case of an applicant for a license who has delivered in obedience to the Executive order of April 5, 1933, gold coin, gold bullion, or gold certificates, the application, in addition to the above, shall state in detail (1) the amount of gold coin, gold bullion or gold certificates delivered in obedience to the Executive order of April 5, 1933, (2) the date of such delivery, and (3) the bank at which delivered.

SEC. 2. Disposition of applications.—On the receipt of any such application, the Federal Reserve bank shall make such investigation of the case as it may deem advisable and shall transmit to the Secretary of the Treasury the original of such application, together with (a) any supplemental information it may deem appropriate and (b) a recommendation whether a license should be granted or denied. The Federal Reserve bank shall retain a copy of the application for its records.

SEC. 3. Granting or denial of the license.—Upon receipt of the original application and the recommendation of the Federal Reserve bank transmitting it, the Secretary of the Treasury will grant or deny the license. A license will be granted on application for the retention or acquisition of gold coin or bullion made by any person showing the need for such gold coin or bullion in accordance with the provisions of section 8 of the Executive order of April 5, 1933, in cases where such person has gold coin, gold bullion or gold certificates in his possession, or in obedience to said Executive order, has delivered such coin, bullion or certificates. A license so granted shall be for an amount of gold coin or bullion not exceeding the amount of such coin, bullion, or certificates held or delivered. When the issuance of a license is approved by the Secretary of the Treasury the Federal Reserve bank through which application was made, will issue a license to the applicant. If denied, the Federal Reserve bank will be so advised and shall immediately notify the applicant. The decision of the Secretary of the Treasury shall be final. The Federal Reserve bank shall note upon the retained copy of the application whether or not a license has been granted, and, if granted, the date of the license and the amount of the gold coin or gold bullion covered thereby.

SEC. 4. Acquisition of gold.—Upon presentation of a license for the acquisition of gold coin or bullion to a Federal Reserve bank, such bank shall deliver to the licensee the amount of gold coin or gold bullion authorized in such license upon payment therefor in an equivalent amount of any form of coin or currency coined or issued under the laws of the United States.

SEC. 5. Reports required on the disposition of gold coin or bullion.—Any person holding a license for the retention or acquisition of gold coin or bullion issued under this article, who shall at any time dispose of such gold coin or bullion in accordance with the terms of the license or otherwise, shall immediately file a written report in duplicate with the Federal Reserve bank through which the license was issued. Such report shall be executed under oath and verified before an officer duly authorized to administer oaths and shall contain (a) the names and addresses of the person or persons to whom such gold coin or bullion was delivered, (b) the amounts thereof and whether gold coin or gold bullion, and (c) the reason for such delivery. On the receipt of any such report, the Federal Reserve bank receiving it shall immediately transmit the original to the Secretary of the Treasury in Washington and shall retain a copy for its record. Upon the transfer of any gold coin or bullion by a person licensed to retain or acquire the same, such licensee shall advise the transferee of the provisions of the Executive order of April 5, 1933, and of the penalties for its violation, and such transferee shall deliver such gold coin or bullion so received to a Federal Reserve bank or branch

or agent thereof or any member bank of the Federal Reserve System in accordance with the Executive order of April 5, 1933, and shall be subject to the penalties of said Executive order for any violation thereof.

These regulations may be supplemented, modified or revoked at any time.

W. H. WOODIN,
Secretary of the Treasury.

PRESIDENT'S MESSAGE TO ECONOMIC CONFERENCE, JULY 3, 1933

The Secretary of State, Mr. Cordell Hull, at London, in his capacity as Secretary of State, today made public the following message to him from the President of the United States, dated July 2, 1933:

"I would regard it as a catastrophe amounting to a world tragedy if the great conference of nations, called to bring about a more real and permanent financial stability and a greater prosperity to the masses of all nations, should, in advance of any serious effort to consider these broader problems, allow itself to be diverted by the proposal of a purely artificial and temporary experiment affecting the monetary exchange of a few nations only. Such action, such diversion, shows a singular lack of proportion and a failure to remember the larger purposes for which the economic conference originally was called together.

"I do not relish the thought that insistence on such action should be made an excuse for the continuance of the basic economic errors that underlie so much of the present world wide depression.

"The world will not long be lulled by the specious fallacy of achieving a temporary and probably an artificial stability in foreign exchange on the part of a few large countries only.

"The sound internal economic system of a nation is a greater factor in its well being than the price of its currency in changing terms of the currencies of other nations.

"It is for this reason that reduced cost of government, adequate government income, and ability to service government debts are all so important to ultimate stability. So too, old fetishes of so-called international bankers are being replaced by efforts to plan national currencies with the objective of giving to those currencies a continuing purchasing power which does not greatly vary in terms of the commodities and need of modern civilization. Let me be frank in saying that the United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt paying power as the dollar value we hope to attain in the near future. That objective means more to the good of other nations than a fixed ratio for a month or two in terms of the pound or franc.

"Our broad purpose is the permanent stabilization of every nation's currency. Gold or gold and silver can well continue to be a metallic reserve behind currencies but this is not the time to dissipate gold reserves. When the world works out concerted policies in the majority of nations to produce balanced budgets and living within their means, then we can properly discuss a better distribution of the world's gold and silver supply to act as a reserve base of national currencies. Restoration of world trade is an important partner, both in the means and in the result. Here also temporary exchange fixing is not the true answer. We must rather mitigate existing embargoes to make easier the exchange of products which one nation has and the other nation has not.

"The Conference was called to better and perhaps to cure fundamental economic ills. It must not be diverted from that effort."

EXECUTIVE ORDER NO. 6260

RELATING TO THE HOARDING, EXPORT, AND EARMARKING OF GOLD COIN, BULLION, OR CURRENCY, AND TO TRANSACTIONS IN FOREIGN EXCHANGE

By virtue of the authority vested in my by section 5 (b) of the act of October 3, 1917, as amended by section 2 of the act of March 9, 1933, entitled "An act to provide relief in the existing national emergency in banking and for other purposes", I, Franklin D. Roosevelt, President of the United States of America, do declare that a period of national emergency exists, and by virtue

of said authority and of all other authority vested in me, do hereby prescribe the following provisions for the investigation and regulation of the hoarding, earmarking, and export of gold coin, gold bullion, and gold certificates by any person within the United States or any place subject to the jurisdiction thereof; and for the investigation and regulation of transactions in foreign exchange and transfers of credit and the export or withdrawal of currency from the United States or any place subject to the jurisdiction thereof by any person within the United States or any place subject to the jurisdiction thereof.

SEC. 2. Definitions.—As used in this order the term "person" means an individual, partnership, association, or corporation; and the term "the United States" means the United States and any place subject to the jurisdiction thereof.

SEC. 3. Returns.—Within 15 days from the date of this order every person in possession of and every person owning gold coin, gold bullion, or gold certificates shall make under oath and file as hereinafter provided a return to the Secretary of the Treasury containing true and complete information relative thereto, including the name and address of the person making the return; the kind and amount of such coin, bullion, or certificates held and the location thereof; if held for another, the capacity in which held and the person for whom held, together with the post-office address of such person; and the nature of the transaction requiring the holding of such coin, bullion, or certificates and a statement explaining why such transaction cannot be carried out by the use of currency other than gold certificates; provided that no returns are required to be filed with respect to—

(a) Gold coin, gold bullion, and gold certificates in an amount not exceeding in the aggregate \$100 belonging to any one person;

(b) Gold coin having a recognized special value to collectors of rare and unusual coin;

(c) Gold coin, gold bullion, and gold certificates acquired or held under a license heretofore granted by or under authority of the Secretary of the Treasury; and

(d) Gold coin, gold bullion, and gold certificates owned by Federal Reserve banks.

Such return required to be made by an individual shall be filed with the collector of internal revenue for the collection district in which such individual resides, or, if such individual has no legal residence in the United States, then with the collector of internal revenue at Baltimore, Md. Such return required to be made by a partnership, association, or corporation shall be filed with the collector of internal revenue of the collection district in which is located the principal place of business or principal office or agency of such partnership, association, or corporation, or, if it has no principal place of business or principal office or agency in the United States, then with the collector of internal revenue at Baltimore, Md. Such return required to be made by an individual residing in Alaska shall be filed with the collector of internal revenue at Seattle, Wash. Such return required to be made by a partnership, association, or corporation having its principal place of business or principal office or agency in Alaska shall be filed with the collector of internal revenue at Seattle, Wash.

The Secretary of the Treasury may grant a reasonable extension of time for filing a return, under such rules and regulations as he shall prescribe. No such extension shall be for more than 45 days from the date of this Executive order. An extension granted hereunder shall be deemed a license to hold for a period ending 15 days after the expiration of the extension.

The returns required to be made and filed under this section shall constitute public records; but they shall be open to public inspection only upon order of the President and under rules and regulations prescribed by the Secretary of the Treasury.

A return made and filed in accordance with this section by the owner of the gold coin, gold bullion, and gold certificates described therein, or his duly authorized agent, shall be deemed an application for the issuance under section 5 hereof of a license to hold such coin, bullion, and certificates.

SEC. 4. Acquisition of gold coin and gold bullion.—No person other than a Federal Reserve bank shall after the date of this order acquire in the United States any gold coin, gold bullion, or gold certificates except under license therefor issued pursuant to this Executive order, provided that member banks of the Federal Reserve System may accept delivery of such coin, bullion, and certificates for surrender promptly to a Federal Reserve bank, and provided

further that persons requiring gold for use in the industry, profession, or art in which they are regularly engaged may replenish their stocks of gold up to an aggregate amount of \$100, by acquisitions of gold bullion held under licenses issued under section 5 (b), without necessity of obtaining a license for such acquisitions.

The Secretary of the Treasury, subject to such further regulations as he may prescribe, shall issue licenses authorizing the acquisition of—

(a) Gold coin or gold bullion which the Secretary is satisfied is required for a necessary and lawful transaction for which currency other than gold certificates cannot be used, by an applicant who establishes that since March 9, 1933, he has surrendered an equal amount of gold coin, gold bullion, or gold certificates to a banking institution in the continental United States or to the Treasurer of the United States;

(b) Gold coin or gold bullion which the Secretary is satisfied is required by an applicant who holds a license to export such an amount of gold coin or gold bullion issued under subdivisions (c) or (d) of section 6 hereof; and

(c) Gold bullion which the Secretary, or such agency as he may designate, is satisfied is required for legitimate and customary use in industry, profession, or art by an applicant regularly engaged in such industry, profession, or art, or in the business of furnishing gold therefor.

Licenses issued pursuant to this section shall authorize the holder to acquire gold coin and gold bullion only from the sources specified by the Secretary of the Treasury in regulations issued hereunder.

Sec. 5. Holding of gold coin, gold bullion, and gold certificates.—After 30 days from the date of this order no person shall hold in his possession or retain any interest, legal or equitable, in any gold coin, gold bullion, or gold certificates situated in the United States and owned by any person subject to the jurisdiction of the United States, except under license therefor issued pursuant to this Executive order: *Provided, however*, That licenses shall not be required in order to hold in possession or retain an interest in gold coin, gold bullion, or gold certificates with respect to which a return need not be filed under section 3 hereof.

The Secretary of the Treasury, subject to such further regulations as he may prescribe, shall issue licenses authorizing the holding of—

(a) Gold coin, gold bullion, and gold certificates, which the Secretary is satisfied are required by the person owning the same for necessary and lawful transactions for which currency, other than gold certificates, cannot be used;

(b) Gold bullion which the Secretary, or such agency as he may designate, is satisfied is required for legitimate and customary use in industry, profession, or art by a person regularly engaged in such industry, profession, or art or in the business of furnishing gold therefor;

(c) Gold coin and gold bullion earmarked or held in trust since before April 20, 1933, for a recognized foreign government or foreign central bank or the Bank for International Settlements; and

(d) Gold coin and gold bullion imported for reexport or held pending action upon application for export licenses.

Sec. 6. Earmarking and export of gold coin and gold bullion.—After the date of this order no person shall earmark or export any gold coin, gold bullion, or gold certificates from the United States, except under license therefor issued by the Secretary of the Treasury pursuant to the provisions of this order.

The Secretary of the Treasury, in his discretion and subject to such regulations as he may prescribe, may issue licenses authorizing—

(a) The export of gold coin or gold bullion earmarked or held in trust since before April 20, 1933, for a recognized foreign government, foreign central bank, or the Bank for International Settlements;

(b) The export of gold, (i) imported for reexport, (ii) refined from gold-bearing materials imported by the applicant under an agreement to export gold, or (iii) in bullion containing not more than 5 ounces of gold per ton;

(c) The export of gold coin or gold bullion to the extent actually required for the fulfillment of a contract entered into by the applicant prior to April 20, 1933; but not in excess of the amount of the gold coin, gold bullion, and gold certificates surrendered by the applicant on or after March 9, 1933, to a banking institution in the continental United States or to the Treasurer of the United States; and

(d) The earmarking for foreign account and/or export of gold coin or gold bullion, with the approval of the President, for transactions which the Secretary of the Treasury may deem necessary to promote the public interest.

SEC. 7. United States possessions—Shipments thereto.—The provisions of sections 3 and 5 of this order shall not apply to gold coin, gold bullion, or gold certificates which is situated in the Philippine Islands, American Samoa, Guam, Hawaii, Panama Canal Zone, Puerto Rico, or the Virgin Islands of the United States, and is owned by a person not domiciled in the continental United States. The provisions of section 4 shall not apply to acquisitions by persons within the Philippine Islands, American Samoa, Guam, Hawaii, Panama Canal Zone, Puerto Rico, or the Virgin Islands of the United States of gold coin or gold bullion which has not been taken or sent thereto since April 5, 1933, from the continental United States or any place subject to the jurisdiction thereof.

SEC. 8. Until further order, the Secretary of the Treasury is authorized, through any agency that he may designate, to investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit from any banking institution within the United States to any foreign branch or office of such banking institution or to any foreign bank or banker, and the export or withdrawal of currency from the United States, by any person within the United States; and the Secretary of the Treasury may require any person engaged in any transaction referred to herein to furnish under oath complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person either before or after such transaction is completed.

SEC. 9. The Secretary of the Treasury is hereby authorized and empowered to issue such regulations as he may deem necessary to carry out the purposes of this order. Such regulations may provide for the detention in the United States of any gold coin, gold bullion, or gold certificates sought to be transported beyond the limits of the continental United States, pending an investigation to determine if such coin, bullion, or certificates are held or are to be acquired in violation of the provisions of this Executive order. Licenses and permits granted in accordance with the provisions of this order and the regulations prescribed thereunder may be issued through such officers or agencies as the Secretary may designate.

SEC. 10. Whoever willfully violates any provision of this Executive order or of any license, order, rule, or regulation issued or prescribed hereunder shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than 10 years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

SEC. 11. The Executive orders of April 5, 1933, forbidding the hoarding of gold coin, gold bullion, and gold certificates, and April 20, 1933, relating to foreign exchange and the earmarking and export of gold coin or bullion or currency, respectively, are hereby revoked. The revocation of such prior Executive orders shall not affect any act done, or any right accruing or accrued, or any suit or proceeding had or commenced in any civil or criminal cause prior to said revocation, but all liabilities under said Executive orders shall continue and may be enforced in the same manner as if said revocation had not been made. This Executive order and any regulations or licenses issued hereunder may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
August 28, 1933.

EXECUTIVE ORDER

RELATING TO THE SALE AND EXPORT OF GOLD RECOVERED FROM NATURAL DEPOSITS

By virtue of the authority vested in me by section 5 (b) of the act of October 6, 1917, as amended by section 2 of the act of March 9, 1933, entitled "An Act to Provide Relief in the Existing National Emergency in Banking and for other purposes", I, Franklin D. Roosevelt, President of the United States of America, do declare that a period of national emergency exists, and by virtue of said authority and of all other authority vested in me, do hereby issue the following Executive order:

The Secretary of the Treasury is hereby authorized to receive on consignment for sale, subject to such rules and regulations and upon such conditions as he shall prescribe, gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof. Sales may be made:

(a) To persons licensed to acquire gold for use in the arts, industries, or professions, or

(b) By export to foreign purchasers.

Such sales shall be made at a price which the Secretary shall determine to be equal to the best price obtainable in the free gold markets of the world after taking into consideration any incidental expenses such as shipping costs and insurance.

Such sales may be made through the Federal Reserve banks or such other agents as the Secretary may from time to time designate and shall be subject to such charges as the Secretary may from time to time in his judgment determine.

Every person depositing gold for sale as provided herein shall be deemed to have agreed to accept as conclusive without any right of recourse or review, the determination of the Secretary or his duly authorized agent as to the amount due such person as a result of any sale.

Consignments shall be sold as nearly as may be in the order of their receipt. The Secretary of the Treasury, in his discretion and subject to such regulations as he may prescribe, is hereby authorized to issue licenses permitting the export of articles fabricated from gold sold pursuant to this Executive order.

This Executive order may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,

August 29, 1933.

EXTRACTS FROM THE "ADDRESS OF THE PRESIDENT DELIVERED BY RADIO FROM THE WHITE HOUSE, OCTOBER 22, 1933"

The last pillar of which I speak is that of the money of the country in the banks of the country. There are two simple facts.

First, the Federal Government is about to spend \$1,000,000,000 as an immediate loan on the frozen or nonliquid assets of all banks closed since January 1, 1933, giving a liberal appraisal to those assets. This money will be in the hands of the depositors as quickly as it is humanly possible to get it out.

Secondly, the Government bank deposit insurance on all accounts up to \$2,500 goes into effect on January 1. We are now engaged in seeing to it that on or before that date the banking capital structure will be built up by the Government to the point that the banks will be in sound condition when the insurance goes into effect.

Finally, I repeat what I have said on many occasions, that ever since last March the definite policy of the Government has been to restore commodity price levels. The object has been the attainment of such a level as will enable agriculture and industry once more to give work to the unemployed. It has been to make possible the payment of public and private debts more nearly at the price level at which they were incurred. It has been gradually to restore a balance in the price structure so that farmers may exchange their products for the products of industry on a fairer exchange basis. It has been and is also the purpose to prevent prices from rising beyond the point necessary to attain these ends. The permanent welfare and security of every class of our people ultimately depends on our attainment of these purposes.

Obviously, and because hundreds of different kinds of crops and industrial occupations in the huge territory that makes up this Nation are involved, we cannot reach the goal in only a few months. We may take 1 year or 2 years or 3 years.

No one who considers the plain facts of our situation believes that commodity prices, especially agricultural prices, are high enough yet.

Some people are putting the cart before the horse. They want a permanent revaluation of the dollar first. It is the Government's policy to restore the price level first. I would not know, and no one else could tell, just what the permanent valuation of the dollar will be. To guess at a permanent gold valuation now would certainly require later changes caused by later facts.

When we have restored the price level, we shall seek to establish and maintain a dollar which will not change its purchasing and debt paying power during the

succeeding generation. I said that in my message to the American delegation in London last July. And I say it now once more.

Because of conditions in this country and because of events beyond our control in other parts of the world, it becomes increasingly important to develop and apply the further measures which may be necessary from time to time to control the gold value of our own dollar at home.

Our dollar is now altogether too greatly influenced by the accidents of international trade, by the internal policies of other nations and by political disturbance in other continents. Therefore the United States must take firmly in its own hands the control of the gold value of our dollar. This is necessary in order to prevent dollar disturbances from swinging us away from our ultimate goal, namely, the continued recovery of our commodity prices.

As a further effective means to this end, I am going to establish a Government market for gold in the United States. Therefore, under the clearly defined authority of existing law, I am authorizing the Reconstruction Finance Corporation to buy gold newly mined in the United States at prices to be determined from time to time after consultation with the Secretary of the Treasury and the President. Whenever necessary to the end in view, we shall also buy or sell gold in the world market.

My aim in taking this step is to establish and maintain continuous control.

This is a policy and not an expedient.

It is not to be used merely to offset a temporary fall in prices. We are thus continuing to move toward a managed currency.

You will recall the dire predictions made last spring by those who did not agree with our common policies of raising prices by direct means. What actually happened stood out in sharp contrast with those predictions. Government credit is high, prices have risen in part. Doubtless prophets of evil still exist in our midst. But Government credit will be maintained and a sound currency will accompany a rise in the American commodity price level.

I have told you tonight the story of our steady but sure work in building our common recovery. In my promises to you both before and after March 4, I made two things plain: First, that I pledged no miracles and, second, that I would do my best.

I thank you for your patience and your faith. Our troubles will not be over tomorrow, but we are on our way and we are headed in the right direction.

RELATING TO GOLD RECOVERED FROM NATURAL DEPOSITS

By virtue of the authority vested in me by section 5 (b) of the act of October 6, 1917, as amended by section 2 of the act of March 9, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", I, Franklin D. Roosevelt, President of the United States of America, do declare that a period of national emergency exists, and by virtue of said authority and of all other authority vested in me, do hereby issue the following Executive order:

SECTION 1. The Executive order of August 29, 1933, relating to the sale and export of gold recovered from natural deposits is hereby revoked; *Provided, however,* That the Secretary of the Treasury is authorized to sell in accordance therewith gold received on consignment for sale on or before the date of this Executive order.

Sec. 2. The United States mints and assay offices are hereby authorized, subject to such regulations as may from time to time be prescribed by the Secretary of the Treasury, to receive on consignment gold which the mint or assay office to which the gold is delivered is satisfied has been recovered from natural deposits in the United States or any place subject to the jurisdiction thereof.

Sec. 3. The Reconstruction Finance Corporation is authorized, subject to such regulations as may from time to time be prescribed by the Secretary of the Treasury, to acquire gold which has been received on consignment by a United States mint or assay office, and to hold, earmark for foreign account, export, or otherwise dispose of such gold.

Sec. 4. The Executive order of August 28, 1933, relating to the hoarding, export, and earmarking of gold coin, bullion, or currency, and to transactions in foreign exchange, is hereby amended to permit, subject to such regulations as may from time to time be prescribed by the Secretary of the Treasury, the export of articles fabricated from gold.

SEC. 5. The Secretary of the Treasury is hereby authorized and empowered to issue such regulations as he may deem necessary to carry out the purpose of this Executive order.

SEC. 6. This Executive order and any regulations issued hereunder may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
October 25, 1933.

TREASURY DEPARTMENT'S IMMEDIATE RELEASE, GOLD REGULATIONS, OCTOBER 25, 1933

Issued under the authority of section 5 (b) of the act of October 6, 1917, as amended by section 2 of the act of March 9, 1933, and the Executive order of October 25, 1933, relating to gold recovered from natural deposits.

Part II and part III of the gold regulations issued by the Secretary of the Treasury September 12, 1933, under the authority of section 5 (b) of the act of October 6, 1917, as amended by section 2 of the act of March 9, 1933, and the Executive orders of August 28, 1933, relating to the hoarding, export, and earmarking of gold coin, bullion, or currency and to transactions in foreign exchange, and of August 29, 1933, relating to the sale and export of gold recovered from natural deposits, are hereby amended to read as follows:

PART II—EXECUTIVE ORDER OF OCTOBER 25, 1933

By virtue of the authority vested in me by section 5 (b) of the act of October 6, 1917, as amended by section 2 of the act of March 9, 1933, entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", I, Franklin D. Roosevelt, President of the United States of America, do declare that a period of national emergency exists, and by virtue of said authority and of all other authority vested in me, do hereby issue the following Executive order:

SECTION 1. The Executive order of August 29, 1933, relating to the sale and export of gold recovered from natural deposits, is hereby revoked: *Provided, however*, That the Secretary of the Treasury is authorized to sell in accordance therewith gold received on consignment for sale on or before the date of this Executive order.

SEC. 2. The United States mints and assay offices are hereby authorized, subject to such regulations as may from time to time be prescribed by the Secretary of the Treasury, to receive on consignment gold which the mint or assay office to which the gold is delivered is satisfied has been recovered from natural deposits in the United States or any place subject to the jurisdiction thereof.

SEC. 3. The Reconstruction Finance Corporation is authorized, subject to such regulations as may from time to time be prescribed by the Secretary of the Treasury, to acquire gold which has been received on consignment by a United States mint or assay office, and to hold, earmark for foreign account, export, or otherwise dispose of such gold.

SEC. 4. The Executive order of August 28, 1933, relating to the hoarding, export, and earmarking of gold coin, bullion, or currency and to transactions in foreign exchange, is hereby amended to permit, subject to such regulations as may from time to time be prescribed by the Secretary of the Treasury, the export of articles fabricated from gold.

* * * * *

ART. 29. *Gold received on consignment.*—The United States Mint and Assay Offices under the conditions specified in this and the following articles of these Regulations and subject to the appropriate regulations governing any United States mint or assay office, will receive on consignment for delivery to the Reconstruction Finance Corporation gold which such mint or assay office is satisfied has been recovered from natural deposits in the United States or any place subject to the jurisdiction thereof: *Provided, however*, That no gold shall be received under the provisions hereof which in the opinion of the mint was held at any time in noncompliance with the act of March 9, 1933, and the Executive orders and regulations issued thereunder: *And provided, further*, That no mint or assay office shall receive on consignment any gold which in its opinion has theretofore entered into industrial or monetary use.

Gold will be received in amounts of not less than 2 ounces of fine gold and in the following forms: Bars, kings, buttons, retort sponge, lumps, grains, and dust, in their native state free from earth and stone, or nearly so. Consignments shall not contain less than 200 parts of gold in 1,000 by assay. In the case of gold forwarded to a mint by mail or express, the original package will not be opened until an invoice of the description and weight of each such package shall have been received. When there is a material discrepancy between the actual and invoice weights of a consignment, further action with regard to it will be deferred pending communication with the consignor.

ART. 30. Rejection of gold by mint.—Consignments which are unsuitable for mint treatment shall be rejected and returned to the person delivering the same at his risk and expense. Any consignment of gold which the mint is not satisfied meets the requirements of these regulations will be disposed of in accordance with applicable law.

ART. 31. Affidavits and agreements to accompany delivery of gold.—Persons delivering gold to a mint for sale under the provisions of the Executive order of October 25, 1933, shall accompany each such delivery with a properly executed affidavit and consignment agreement in duplicate as follows:

An affidavit and consignment agreement on form TG-7A shall be filed with each delivery of gold by persons who have recovered such gold by mining or panning in the United States or any place subject to the jurisdiction thereof.

An affidavit and consignment agreement on form TG-8A shall be filed with each delivery of gold by persons who have recovered such gold from gold-bearing materials in the regular course of their business of operating a custom mill, smelter, or refinery.

An affidavit and consignment agreement on form TG-8A, together with a statement also under oath giving (a) the names of the persons from whom the gold was purchased, (b) amount and description of each lot of gold purchased, (c) the location of the mine or placer deposit from which each lot was taken, and (d) the period within which such gold was taken from the mine or placer deposit, shall be filed with each such delivery of gold by persons who have purchased such gold directly from persons who have mined or panned such gold.

ART. 32. Records and reports.—Every person delivering gold on consignment in accordance with article 29 of these regulations shall keep accurate records of all gold mined or acquired, and such records shall be available for examination by a representative of the Treasury Department for at least 1 year after such delivery. Such person shall also file with the Director of the Mint, on or before the 25th day of each month after the date the first consignment is made, a report covering the period of the preceding calendar month: *Provided*, That the first report shall cover the period from April 1, 1933, to the end of the calendar month preceding the date of the report. Such report shall be made under oath and on the appropriate form as follows:

If the consignor has recovered such gold by mining or panning in the United States or any place subject to the jurisdiction thereof such report shall be made on form TGR-7A.

If the consignor has recovered such gold from gold-bearing materials in the regular course of his business of operating a custom mill, smelter, or refinery such report shall be made on form TGR-8A.

If the consignor (other than a person operating a custom mill, smelter, or refinery) has purchased such gold directly from persons who have mined or panned such gold such report shall be made on form TGR-8B.

ART. 33. Agreement by consignor.—A mint shall not receive gold on consignment under the provisions of the Executive order of October 25, 1933, unless full compliance with these regulations is shown to its satisfaction, and until the person owning the gold, or his duly authorized agent, has signed a written agreement to accept as conclusive without any right of recourse or review, the determination of the Reconstruction Finance Corporation or its duly authorized agent as to the face amount of its notes due such person in consideration of the gold deposited.

ART. 34. Disposition of gold received on consignment.—When, after a delivery of gold as provided in article 29, the mint is satisfied that the same may properly be accepted under the provisions of the Executive order of October 25, 1933, and of these regulations, and that the consignor has fully complied with the same, and after assay and receipt of mint charges, it shall certify to the Federal Reserve bank in the district in which the mint is located that is has available, in accordance with the Executive order of October 25, 1933, for the account of the person by whom or on whose behalf the gold was consigned, the amount of gold shown

by such assay. Upon receipt of information from the Federal Reserve banks that gold has been accepted by the Reconstruction Finance Corporation, the mint shall dispose of such gold in accordance with instructions from the Reconstruction Finance Corporation or its agent.

ART. 35. *Export of fabricated gold.*—Articles fabricated from gold may be exported without the necessity of obtaining a license for such export if the collector of customs at the port of export or the postmaster at the place of mailing is satisfied that the export of such articles is in the course of a usual and normal business transaction and is not being made for the purpose of selling the gold content of such articles for the bullion value.

ART. 36. *Forms available.*—Any form, the use of which is prescribed in these regulations, may be obtained at United States mints and assay offices and Federal Reserve banks and at the Treasury Department, Washington.

ART. 37. *Modification of regulations.*—The provisions of these regulations may be revoked or modified at any time.

W. H. WOODIN,
Secretary of the Treasury.

FRANKLIN D. ROOSEVELT.

Approved.

THE WHITE HOUSE,
October 25, 1933.

PRESS RELEASE OF THE PRESIDENT'S SILVER PROCLAMATION, DECEMBER 21, 1933

Under the clear authority granted to me by the last session of the Congress, I have today, by proclamation, preceded to ratify the London agreement with regard to silver, which has already been put into effect by the Government of India, and which I understand other nations concerned are about to act on.

This proclamation, in accordance with the act of Congress, opens our mints to the coinage of standard silver dollars from silver hereafter produced in the United States or its possessions, subject to the depositors of such silver surrendering to the Government one half of it as seigniorage and to cover all usual charges and expenses. The dollars coined from half of such newly mined silver will be returned to the depositor. The half surrendered to the Government will be retained in the Treasury.

It will be remembered that at the London conference 66 governments unanimously adopted the silver resolution proposed by our Government, providing in substance that these governments would refrain from the policy and practice of melting up and debasing silver coins; that they would replace low-valued paper money with silver coins; and that they would not enact legislation that would depreciate the value of silver in the world market. This resolution, however, was contingent upon an agreement between the governments of those countries producing large quantities of silver and the governments of those countries holding or using large quantities, looking to the elimination of an unnatural oversupply of silver on the markets of the world. This agreement, of course, was for the purpose of allowing demand and supply to govern the price of silver by the limitation and neutralization of this oversupply derived from the melting up of silver coins.

India had the power to dispose of, on the markets of the world, at any time, and at any price, hundreds of millions of ounces of silver. In fact, India had the power and capacity to dump silver derived from the melting up of Indian silver coins in an amount equal to the world's production from the mines for the period of 2 years. This power and the uncertainty attending its execution was destructive of the value and stability of silver throughout the world.

China agreed, during the period of 4 years commencing January 1, 1934, and ending January 1, 1938, not to permit the sale of any silver derived from the debasing or melting up of silver coins. India agreed to limit the sales of such silver to a maximum of 35,000,000 ounces annually during such period and Spain agreed not to sell in excess of 5,000,000 ounces of such silver annually during such period. After such sales, these governments are to be bound by the general resolution adopted at the London conference to which I have heretofore referred.

As a condition of the agreement, China, India, and Spain, however, it was required that Australia, Canada, Mexico, Peru, and the United States should take

silver from the production of their respective mines to the gross amount of 35,000,000 ounces annually for such period of four years. The United States, by reason of its large population and its large silver production, agreed to take from its mines annually at least 24,421,410 ounces of silver during such period.

The production of the United States for 1932 was approximately 24,000,000 ounces of silver.

COINAGE OF SILVER

A PROCLAMATION BY THE PRESIDENT OF THE UNITED STATES OF AMERICA (No. 2067)

Whereas, by paragraph (2) of section 43, title III, of the act of Congress, approved May 12, 1933 (Public, No. 10), the President is authorized "By proclamation to fix the weight of the gold dollar in grains nine tenths fine and also to fix the weight of the silver dollar in grains nine tenths fine at a definite fixed ration in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ration so fixed, * * *"; and

Whereas, from investigations made by me, I find it necessary, in aid of the stabilization of domestic prices and in accordance with the policy and program authorized by Congress, which are now being administered, and to protect our foreign commerce against the adverse effect of depreciated foreign currencies, that the price of silver be enhanced and stabilized; and

Whereas, a resolution presented by the delegation of the United States of America was unanimously adopted at the World Economic and Monetary Conference in London on July 20, 1933, by the representatives of 66 governments, which in substance provided that said governments will abandon the policy and practice of melting up or debasing silver coins; that low-valued silver currency be replaced with silver coins and that no legislation should be enacted that will depreciate the value of silver; and

Whereas, a separate and supplemental agreement was entered into, at the instance of the representatives of the United States, between China, India, and Spain, the holders and users of large quantities of silver, on the one hand, and Australia, Canada, Mexico, Peru, and the United States on the other hand, as the chief producers of silver, wherein China agreed not to dispose of any silver derived from the melting up or debasement of silver coins, and India agreed not to dispose of over 35,000,000 ounces of silver per annum during a period of 4 years commencing January 1, 1934, and Spain agreed not to dispose of over 5,000,000 ounces of silver annually during said period, and both of said governments agreed that at the end of said period of 4 years they would then subject themselves to the general resolution adopted at the London conference, and in consideration of such limitation it was agreed that the governments of the five producing countries would each absorb from the mines in their respective countries a certain amount of silver, the total amount to be absorbed by said producing countries being 35,000,000 ounces per annum during the 4 years commencing the 1st day of January 1934; that such silver so absorbed would be retained in each of said respective countries for said period of 4 years, to be used for coinage purposes or as reserves for currency, or to otherwise be retained and kept off the world market during such period of time, it being understood that of the 35,000,000 ounces the United States was to absorb annually at least 24,421,410 ounces of the silver produced in the United States during such period of time.

Now, therefore, finding it proper to cooperate with other governments and necessary to assist in increasing and stabilizing domestic prices, to augment the purchasing power of peoples in silver-using countries, to protect our foreign commerce against the adverse effect of depreciated foreign currencies, and to carry out the understanding between the 66 governments that adopted the resolution hereinbefore referred to; by virtue of the power in me vested by the act of Congress above cited, the other legislation designated for national recovery, and by virtue of all other authority in me vested;

I, Franklin D. Roosevelt, President of the United States of America, do proclaim and direct that each United States coinage mint shall receive for coinage into standard silver dollars any silver which such mint, subject to regulations prescribed hereunder by the Secretary of the Treasury, is satisfied has been mined,

subsequently to the date of this proclamation, from natural deposits in the United States or any place subject to the jurisdiction thereof. The Director of the Mint, with the voluntary consent of the owner, shall deduct and retain of such silver so received 50 percent as seigniorage and for services performed by the Government of the United States relative to the coinage and delivery of silver dollars. The balance of such silver so received, that is, 50 percent thereof, shall be coined into standard silver dollars and the same, or an equal number of other standard silver dollars, shall be delivered to the owner or depositor of such silver. The 50 percent of such silver so deducted shall be retained as bullion by the Treasury and shall not be disposed of prior to the 31st day of December 1937, except for coining into United States coins.

The Secretary of the Treasury is authorized to prescribe regulations to carry out the purposes of this proclamation. Such regulations shall contain provisions substantially similar to the provisions contained in the regulations made pursuant to the act of Congress, approved April 23, 1918 (40 Stat.L., p. 535), known as the Pittman Act, with such changes as he shall determine prescribing how silver mined, subsequently to the date of this proclamation from natural deposits in the United States or any place subject to the jurisdiction thereof, shall be identified.

This proclamation shall remain in force and effect until the 31st day of December 1937, unless repealed or modified by act of Congress or by subsequent proclamation.

The present ratio in weight and fineness of the silver dollar to the gold dollar shall, for the purposes of this proclamation, be maintained until changed by further order or proclamation.

Notice is hereby given that I reserve the right by virtue of the authority vested in me to revoke or modify this proclamation as the interest of the United States may seem to require.

In witness whereof, I have hereunto set my hand and caused the seal of the United States to be affixed.

Done at the city of Washington this 21st day of December, in the year of our Lord 1933, and of the Independence of the United States of America the one hundred and fifty-eighth.

[SEAL]

FRANKLIN D. ROOSEVELT.

By the President:

WILLIAM PHILLIPS,
Acting Secretary of State.

TREASURY DEPARTMENT'S IMMEDIATE RELEASE DECEMBER 28, 1933

Supplementing the President's order of August 28, 1933, the Secretary of the Treasury has today issued an order under section 3 of the act of March 9, 1933, requiring every person to deliver all gold coin, gold bullion, and gold certificates owned by such person, with certain exceptions stated in the order. This order further carries out the purpose of Congress as expressed in the Emergency Banking Act of March 9, to mobilize the gold coin, gold bullion, and gold certificates of the country to protect the currency system for the benefit of all citizens. It applies to the small holders and to those relatively few large holders who have not complied with the law.

The former order of the President was issued under section 2 of the same act of Congress, requiring all persons to file returns relative to the gold coin, gold bullion, and gold certificates owned by them or in their possession. This order provided that the return should constitute an application for a license to hold such gold and gold certificates but provided that after a specified period of time no person could lawfully hold, without a license, any gold coin, gold bullion or gold certificates, except as specifically provided in the order.

For the convenience of holders of gold and gold certificates the order provides that delivery shall be made by placing the gold and gold certificates in custody of a Federal Reserve bank or branch, or of a bank which is a member of the Federal Reserve System, to be held by such bank exclusively for the account of the Treasurer of the United States. Upon receipt of the gold coin, gold bullion, or gold certificates, or receipt of the confirmation, payment will be made for the gold and gold certificates in an equivalent amount of any form of coin or currency coined or issued under the laws of the United States. Payment for any gold bullion will be made at the rate of \$20.67 an ounce.

ORDER OF THE SECRETARY OF THE TREASURY REQUIRING THE DELIVERY OF GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES TO THE TREASURER OF THE UNITED STATES¹

Whereas section 11 of the Federal Reserve Act of December 23, 1913, as amended by section 3 of the act of March 9, 1933, entitled "An act to provide relief in the existing national emergency in banking, and for other purposes", provides in subsection (n) as follows:

"Whenever in the judgment of the Secretary of the Treasury such action is necessary to protect the currency system of the United States, the Secretary of the Treasury, in his discretion, may require any or all individuals, partnerships, associations, and corporations to pay and deliver to the Treasurer of the United States any or all gold coin, gold bullion, and gold certificates owned by such individuals, partnerships, associations, and corporations. Upon receipt of such gold coin, gold bullion, or gold certificates the Secretary of the Treasury shall pay therefor an equivalent amount of any other form of coin or currency coined or issued under the laws of the United States. The Secretary of the Treasury shall pay all costs of the transportation of such gold bullion, gold certificates, coin, or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any individual, partnership, association, or corporation failing to comply with any requirement of the Secretary of the Treasury made under this subsection shall be subject to a penalty equal to twice the value of the gold or gold certificates in respect of which such failure occurred, and such penalty may be collected by the Secretary of the Treasury by suit or otherwise"; and

Whereas in my judgment such action is necessary to protect the currency system of the United States:

Now, therefore, I, Henry Morgenthau, Jr., Acting Secretary of the Treasury, do hereby require every person subject to the jurisdiction of the United States forthwith to pay and deliver to the Treasurer of the United States all gold coin, gold bullion, and gold certificates situated in the United States, owned by such person, except as follows:

A. Gold bullion owned by a person now holding such gold under a license heretofore granted by or under authority of the Secretary of the Treasury, pursuant to the Executive order of August 28, 1933, relating to the hoarding, export, and earmarking of gold coin, bullion, or currency, and to transactions in foreign exchange;

B. Gold coin having a recognized special value to collectors of rare and unusual coin (but not including quarter eagles, otherwise known as \$2.50 pieces)²;

C. Unmelted scrap gold and gold sweepings in an amount not exceeding in the aggregate \$100, belonging to any one person; and gold which has been put through a process of fabrication for a specific and customary industrial, professional, or ornamental use;

D. Gold coin, gold bullion, and gold certificates owned by a Federal Reserve bank or the Reconstruction Finance Corporation; and

E. Gold bullion and foreign gold coin now situated in the Philippine Islands, American Samoa, Guam, Hawaii, Panama Canal Zone, Puerto Rico, or the Virgin Islands of the United States, owned by a person not domiciled or doing business in the continental United States.

SEC. 2. Delivery.—The gold coin, gold bullion, and gold certificates herein required to be paid and delivered to the Treasurer of the United States shall be delivered by placing the same forthwith in the custody of a Federal Reserve bank or branch or a bank member of the Federal Reserve System for the account of the United States and by forwarding confirmation that the gold coin, gold bullion, and gold certificates have been so placed in custody for the account of the United States and are held subject to the order of the Treasurer of the United States, signed by such bank and the person making the delivery (or the authorized agent of such person) to the Treasurer of the United States, Washington, D.C., in a postage-prepaid envelope bearing a postmark dated prior to midnight of the day the gold coin, gold bullion, and gold certificates are so placed in custody.

¹ Amended by order of the Secretary of the Treasury, Jan. 11, 1934; see table of exhibits; and supplemented by order of the Secretary of the Treasury, Jan. 15, 1934; see table of exhibits.

² Amended by order of the Secretary of the Treasury, Jan. 11, 1934; see table of exhibits.

SEC. 3. *Payment and reimbursement of costs.*—Upon receipt of the confirmation signed and delivered as required under section 2, the Secretary of the Treasury will pay for the gold coin, gold bullion, and gold certificates placed in custody for the account of the United States in accordance with section 2, an equivalent amount of any form of coin or currency coined or issued under the laws of the United States designated by the Secretary of the Treasury. The Secretary of the Treasury will pay all costs of the transportation of such gold coin, gold bullion, and gold certificates to the Federal Reserve bank or branch or bank member of the Federal Reserve System in the city or town nearest to the place where such gold coin, gold bullion, and gold certificates are now situated, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Persons desiring reimbursement for such costs actually incurred shall submit their accounts on voucher forms which may be obtained by writing to the Treasurer of the United States, Washington, D.C.

SEC. 4. *Definitions.*—As used in this order, the term "person" means any individual, partnership, association, or corporation; the term "United States" means the United States and any place subject to the jurisdiction thereof; the term "continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "gold coin" means any coin containing gold, including foreign gold coin; and the term "gold bullion" means any gold which has been put through a process of smelting or refining that is in such form that its value depends upon the gold content and not upon the form, but does not include gold coin or metals containing less than five troy ounces of fine gold per short ton.

SEC. 5. Any individual, partnership, association, or corporation failing to comply with any requirement hereof or of any rules or regulations issued by the Secretary of the Treasury hereunder shall be subject to the penalty provided in section 11 (n) of the Federal Reserve Act, as amended.

This order may be modified or revoked at any time.

H. MOEGENTHAU, Jr.,
Acting Secretary of the Treasury.

Approved.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
December 23, 1933.

AMENDING PROCLAMATIONS OF MARCH 6 AND 9, 1933, AND THE EXECUTIVE ORDER OF MARCH 10, 1933, AND ALL ORDERS AND REGULATIONS PURSUANT THERETO

A PROCLAMATION BY THE PRESIDENT OF THE UNITED STATES OF AMERICA
(No. 2070)

Whereas, on March 6, 1933, I, Franklin D. Roosevelt, President of the United States of America, by virtue of authority vested in me by the act of October 6, 1917 (40 Stat.L. 411), as amended, issued a proclamation declaring that an emergency existed and that a national banking holiday be observed;

Whereas, on March 9, 1933, I issued a proclamation continuing the terms and conditions of said proclamation of March 6, 1933, in full force and effect until further proclamation by the President;

Whereas, on March 10, 1933, I issued an Executive order authorizing the appropriate authority having immediate supervision of banking institutions in each State or any place subject to the jurisdiction of the United States to permit any banking institution not a member of the Federal Reserve System to perform any or all of its usual banking functions except as otherwise provided;

Whereas, the Secretary of the Treasury, pursuant to authority granted by other provisions of the said Executive order of March 10, 1933, has acted upon all requests for licensing of banks members of the Federal Reserve System;

Whereas, the Federal Deposit Insurance Corporation has acted upon all applications to it for membership in the Temporary Federal Deposit Insurance Fund as provided for in section 12B (y) of the Federal Reserve Act as amended by section 8 of the act of June 16, 1933 (Public, No. 66, 73d Cong.), and has admitted to the said fund all applicant banks which are duly and properly qualified; and

Whereas, it is now appropriate that the banking authority in each State and any place subject to the jurisdiction of the United States should have any exercise the sole responsibility for, and control over, banking institutions not members of the Federal Reserve System;

Now, therefore, I, Franklin D. Roosevelt, President of the United States, in order to assure that the banking authority in each State and in any place subject to the jurisdiction of the United States shall have and exercise the sole responsibility for, and control over, banking institutions which are not members of the Federal Reserve System, do hereby proclaim, order, direct, and declare that the proclamations of March 6, 1933, and March 9, 1933, and the Executive order of March 10, 1933, and all orders and regulations pursuant thereto, are amended, effective the first day of January, 1934, to exclude from their scope banking institutions which are not members of the Federal Reserve System. *Provided, however,* That no banking institution shall pay out any gold coin, gold bullion, or gold certificates, except as authorized by the Secretary of the Treasury, nor allow the withdrawal of any currency for hoarding, nor engage in any transactions in foreign exchange except such as may be undertaken for legitimate and normal business requirements, for reasonable traveling and other personal requirements, and for the fulfillment of contracts entered into prior to March 6, 1933.

In witness whereof, I have hereunto set my hand and caused the seal of the United States to be affixed.

Done in the city of Washington this 30th day of December in the year of our Lord 1933, and of the independence of the United States the one hundred and fifty-eighth.

[SEAL]

FRANKLIN D. ROOSEVELT.

By the President:

WILLIAM PHILLIPS,

Acting Secretary of State.

ORDER OF THE SECRETARY OF THE TREASURY AMENDING THE ORDER OF DECEMBER 28, 1933, REQUIRING THE DELIVERY OF GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES TO THE TREASURER OF THE UNITED STATES

Whereas in my judgment the order of December 28, 1933, requiring the delivery of gold coin, gold bullion, and gold certificates to the Treasurer of the United States, may be amended as hereinafter provided without adversely affecting the purposes thereof.

Now, therefore, I, Henry Morgenthau, Jr., Secretary of the Treasury, do hereby amend said order of December 28, 1933, by inserting after the word "pieces" in the parenthetical phrase in paragraph (B) of the first section thereof a comma and the following: "unless held, together with rare and unusual coin, as part of a collection for historical, scientific, or numismatic purposes, containing not more than four quarter eagles of the same date and design, and struck by the same mint."

This order may be modified or revoked at any time.

H. MORGENTHAU, Jr.,
Secretary of the Treasury.

Approved.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
January 11, 1934.

EXECUTIVE ORDER NO. 6556

AMENDMENT OF EXECUTIVE ORDER NO. 6260 OF AUGUST 28, 1933

The first paragraph of section 4 of Executive Order No. 6260 of August 28, 1933, relating to the hoarding, export, and earmarking of gold coin, bullion, or currency, and to transactions in foreign exchange is hereby amended to read as follows:

SEC. 4. *Acquisition of gold coin and gold bullion.*—No person other than a Federal Reserve bank shall, after the date of this order, acquire in the United

States any gold coin, gold bullion, or gold certificates except under license therefor issued pursuant to this Executive order, provided that member banks of the Federal Reserve System may accept delivery of such coin, bullion, and certificates for surrender promptly to a Federal Reserve bank, and provided further that persons requiring gold for use in the industry, profession, or art in which they are regularly engaged may replenish their stocks of gold up to an aggregate amount of \$100, by acquisitions of gold bullion held under licenses issued under section 5 (b), without necessity of obtaining a license for such acquisitions, and provided further that collectors of rare and unusual coin may acquire from one another and hold without necessity of obtaining a license therefor gold coin having a recognized special value to collectors of rare and unusual coin (but not including quarter eagles, otherwise known as \$2.50 pieces, unless held, together with rare and unusual coin, as part of a collection for historical, scientific, or numismatic purposes, containing not more than four quarter eagles of the same date and design and struck by the same mint).

Section 6 of the aforesaid order is hereby amended by adding thereto the following subparagraph:

(e) Through any agency that he may designate, the export of gold coin having a recognized special value to collectors of rare and unusual coin (but not including quarter eagles, otherwise known as \$2.50 pieces, unless held, together with rare and unusual coin, as part of a collection for historical, scientific, or numismatic purposes, containing not more than four quarter eagles of the same date and design and struck by the same mint).

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
January 12, 1934.

EXECUTIVE ORDER No. 6580

REGULATING TRANSACTIONS IN FOREIGN EXCHANGE, TRANSFERS OF CREDIT, AND THE EXPORT OF COIN AND CURRENCY

By virtue of the authority vested in me by section 5 (b) of the act of October 6, 1917 (40 Stat.L. 411) as amended by section 2 of the act of March 3, 1933, entitled "An act to provide relief in the existing national emergency in banking and for other purposes", I, Franklin D. Roosevelt, President of the United States of America, do declare that a period of national emergency continues to exist, and by virtue of said authority and of all other authority vested in me, do hereby prescribe the following regulations for the investigation, regulation, and prohibition of transactions in foreign exchange, transfers of credit between or payments by banking institutions as herein defined, and export of currency or silver coin, by any person within the United States or any place subject to the jurisdiction thereof:

SECTION 1. Every transaction in foreign exchange, transfer of credit between any banking institution within the United States and any banking institution outside of the United States (including any principal, agent, home office, branch, or correspondent outside of the United States of a banking institution within the United States), and the export or withdrawal from the United States of any currency or silver coin which is legal tender in the United States, by any person within the United States, is hereby prohibited, except under license therefor issued pursuant to this Executive order: *Provided, however,* That, except as prohibited under regulations prescribed by the Secretary of the Treasury, foreign exchange transactions and transfers of credit may be carried out without a license for (a) normal commercial or business requirements, (b) reasonable traveling and other personal requirements, or (c) the fulfillment of legally enforceable obligations incurred prior to March 9, 1933.

SEC. 2. Possessions of the United States.—Except as prohibited in regulations prescribed by the Secretary of the Treasury, transfers of credit between banking institutions in the continental United States and banking institutions in other places subject to the jurisdiction of the United States (including principals, agents, home offices, branches, or correspondents in such other places, of banking institutions within the continental United States), may be carried out without a license.

SEC. 3. Licenses.—The Secretary of the Treasury, acting directly or through any agencies that he may designate, and the Federal Reserve banks, acting in accordance with such rules and regulations as the Secretary of the Treasury

may from time to time prescribe, are hereby designated as agencies for the granting of licenses as hereinafter provided. Licenses may be granted authorizing such transactions in foreign exchange, transfers of credit, and exports of currency (other than gold certificates) or silver coin in such specific cases or classes of cases as the Secretary of the Treasury may determine in regulations prescribed hereunder and rulings made pursuant thereto.

SEC. 4. Reports.—The Federal Reserve banks shall keep themselves currently informed as to foreign exchange transactions entered into or consummated, and transfers of credit made between banking institutions outside of the continental United States and banking institutions, in their districts, and report to the Secretary of the Treasury all transactions in foreign exchange and all such transfers of credit not permitted under sections 1 or 2 hereof which are effected or attempted in their districts without a license.

SEC. 5. Regulations.—The Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations to carry out the purposes of this order, and to provide in such regulations or by rulings made pursuant thereto, the conditions under which licenses may be granted by the Federal Reserve banks and by such other agencies as the Secretary of the Treasury may designate; and the Secretary of the Treasury may require any person engaged in any transaction, transfer, export, or withdrawal referred to in this Executive order to furnish under oath complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person either before or after such transaction, transfer, export, or withdrawal is completed.

SEC. 6. Penalties.—Whoever willfully violates or knowingly participates in the violation of any provision of this Executive order or of any license, order, rule, or regulation issued or prescribed hereunder, shall be subject to the penalties provided in section 5 (b) of the act of October 6, 1917, as amended by section 2 of the act of March 9, 1933.

SEC. 7. Definitions.—As used in this Executive order the term "United States" means the United States and any place subject to the jurisdiction thereof; the term "continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "person" means an individual, partnership, association, or corporation; and the term "banking institution" includes any person engaged primarily or incidentally in the business of banking, or granting or transferring credits, or of purchases and selling foreign exchange or procuring purchasers and sellers thereof, as principal or agent; and for the purposes of this order, each home office, branch, principal, agent, or correspondent of any person so engaged shall be regarded as a separate "banking institution."

SEC. 8. Section 8 of the Executive order of August 28, 1933, relating to the hoarding, export, and earmarking of gold coin, bullion, or currency and to transactions in foreign exchange, is hereby revoked.

This Executive order and any rules, regulations, or licenses prescribed or issued hereunder may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
January 15, 1934.

EXECUTIVE ORDER NO. 6558

RELATING TO RECEIPT OF GOLD ON CONSIGNMENT BY THE MINTS AND ASSAY OFFICES

By virtue of the authority vested in me by section 5 (b) of the act of October 6, 1917, as amended by section 2 of the act of March 9, 1933, entitled "An act to provide relief in the existing national emergency in banking and for other purposes", I, Franklin D. Roosevelt, President of the United States of America, do declare that a period of national emergency exists, and by virtue of said authority and of all other authority vested in me, do hereby prescribe the following regulations for receiving gold on consignment for sale:

SECTION 1. The United States mints and assay offices are hereby authorized, subject to such regulations as may from time to time be prescribed by the Secretary of the Treasury, to receive on consignment gold which the mint or assay office concerned is satisfied has not been held in noncompliance with the Executive orders, or the orders of the Secretary of the Treasury, issued under

sections 2 and 3 of the act of March 9, 1933, or in noncompliance with any regulations or rulings made thereunder or licenses issued pursuant thereto.

SEC. 2. The Secretary of the Treasury is hereby authorized and empowered to issue such regulations as he may deem necessary to carry out the purposes of this Executive order.

SEC. 3. This Executive order and any regulations issued hereunder may be modified or revoked at any time.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
January 15, 1934.

EXECUTIVE ORDER NO. 6559

AMENDING THE EXECUTIVE ORDER OF MARCH 10, 1933, AND THE PROCLAMATION OF DECEMBER 30, 1933, CONCERNING THE OPERATION OF BANKS

By virtue of the authority vested in me by section 5 (b) of the act of October 6, 1917 (40 Stat. L. 411), as amended by the act of March 9, 1933, and by section 4 of said act of March 9, 1933, and by virtue of all other authority vested in me, I, Franklin D. Roosevelt, President of the United States of America, do hereby issue the following Executive order:

SECTION 1. The last two paragraphs of the Executive order of March 10, 1933, concerning the operation of banks, are amended, effective from the date of this order, by striking out the following:

"nor to engage in any transaction in foreign exchange except such as may be undertaken for legitimate and normal business requirements, for reasonable traveling and other personal requirements, and for the fulfillment of contracts entered into prior to March 6, 1933.

"Every Federal Reserve bank is authorized and instructed to keep itself currently informed as to transactions in foreign exchange entered into or consummated within its district and shall report to the Secretary of the Treasury all transactions in foreign exchange which are prohibited."

The Secretary of the Treasury is authorized to amend the licenses heretofore issued with his approval by the Federal Reserve banks under the Executive order of March 10, 1933, by issuing through the Federal Reserve banks amendatory licenses removing the restriction upon transactions in foreign exchange contained in the licenses heretofore issued.

SEC. 2. The proclamation of December 30, 1933, relating to the licensing of banking institutions which are not members of the Federal Reserve System, is amended, effective from the date of this order, by striking out the following: "nor to engage in any transaction in foreign exchange except such as may be undertaken for legitimate and normal business requirements, for reasonable traveling and other personal requirements, and for the fulfillment of contracts entered into prior to March 6, 1933."

SEC. 3. The amendment of such Executive order of March 10, 1933, or of any licenses issued thereunder, and the amendment of such proclamation of December 30, 1933, shall not affect any act done, or any order, decision, or finding made, or relieve any person from the consequences of any unauthorized act committed prior to the date of this Executive order; nor shall the amendment of the Executive order of March 10, 1933, or the proclamation of December 30, 1933, relieve any person from the obligation of complying with the terms of the Executive order of January 15, 1934, relating to the export of coin and currency and transactions in foreign exchange, or the regulations or licenses issued thereunder, or of any other provision of law affecting transactions in foreign exchange.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
January 15, 1934.

ORDER OF THE SECRETARY OF THE TREASURY SUPPLEMENTING THE ORDER OF DECEMBER 28, 1933, REQUIRING THE DELIVERY OF GOLD COIN, GOLD BULLION, AND GOLD CERTIFICATES TO THE TREASURER OF THE UNITED STATES

Whereas on December 28, 1933, I, Henry Morgenthau, Jr., as Acting Secretary of the Treasury, issued an order under authority of section 11 of the Federal Reserve Act of December 23, 1913, as amended by section 3 of the Act of March

9, 1933, entitled "An act to provide relief in the existing national emergency in banking, and for other purposes";

Whereas said order, as amended by an order of January 11, 1934, required every person subject to the jurisdiction of the United States forthwith to pay and deliver to the Treasurer of the United States all gold coin, gold bullion, and gold certificates situated in the United States, owned by such person, except as follows:

A. Gold bullion owned by a person now holding such gold under a license heretofore granted by or under authority of the Secretary of the Treasury, pursuant to the Executive order of August 28, 1933, relating to the hoarding, export, and earmarking of gold coin, bullion, or currency and to transactions in foreign exchange;

B. Gold coin having a recognized special value to collectors of rare and unusual coin (but not including quarter eagles, otherwise known as \$2.50 pieces, unless held, together with rare and unusual coin, as part of a collection for historical, scientific, or numismatic purposes containing not more than four quarter eagles of the same date and design and struck by the same mint);

C. Unmelted scrap gold and gold sweepings in an amount not exceeding in the aggregate \$100 belonging to any one person; and gold which has been put through a process of fabrication for a specific and customary industrial, professional, or ornamental use;

D. Gold coin, gold bullion, and gold certificates owned by a Federal Reserve bank or the Reconstruction Finance Corporation; and

E. Gold bullion and foreign gold coin now situated in the Philippine Islands, American Samoa, Guam, Hawaii, Panama Canal Zone, Puerto Rico, or the Virgin Islands of the United States owned by a person not domiciled or doing business in the continental United States.

Whereas a reasonable time has elapsed within which any person required to deliver gold coin, gold bullion, and gold certificates could pay and deliver to the Treasurer of the United States in the manner provided in said Order of December 28, 1933 the gold coin, gold bullion, and gold certificates situated in the United States, owned by such person; and

Whereas in my judgment such action is necessary to protect the currency system of the United States;

Now, therefore, I Henry Morgenthau, Jr., Secretary of the Treasury, do hereby fix midnight of Wednesday, January 17, 1934 as the expiration of the period within which any gold coin, gold bullion, or gold certificates may be paid and delivered to the Treasurer of the United States in compliance with the requirements contained in such Order of December 28, 1933, as amended.

In the event that any gold coin, gold bullion, or gold certificates withheld in noncompliance with said order and of this order are offered after January 17, 1934, to the Secretary of the Treasury, the Treasurer of the United States, any United States mint or assay office, or to any fiscal agent of the United States, there shall be paid therefor only such part or none of the amount otherwise payable therefor as the Secretary of the Treasury may from time to time prescribe and the whole or any balance shall be retained and applied to the penalty payable for failure to comply with the requirements of such order and of this order. The acceptance of any such coin, bullion, or certificates after January 17, 1934, whether or not a part or all of the amount otherwise payable therefor is so retained, shall be without prejudice to the right to collect by suit or otherwise the full penalty provided in section 11 (n) of the Federal Reserve Act, as amended, less such portion of the penalty as may have been retained as hereinbefore provided.

The definitions of the terms "person", "United States", "gold coin", and "gold bullion" contained in section 4 of said order of December 28, 1933, apply equally to such terms as used in this order.

H. MORGENTHAU, Jr.,
Secretary of the Treasury.

Approved.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
January 15, 1934.

[PUBLIC—No. 87—73D CONGRESS]

[H.R. 6076]

AN ACT To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Gold Reserve Act of 1934."

SEC. 2. (a) Upon the approval of this Act all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefore credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

(b) Section 16 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) The third sentence of the first paragraph is amended to read as follows: "They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank."

(2) So much of the third sentence of the second paragraph as precedes the proviso is amended to read as follows: "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates:"

(3) The first sentence of the third paragraph is amended to read as follows: "Every Federal Reserve bank shall maintain reserves in gold certificates or lawful money of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual circulation: *Provided, however,* That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(4) The fifth and sixth sentences of the third paragraph are amended to read as follows: "Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States."

(5) The fourth, fifth, and sixth paragraphs are amended to read as follows: "The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than 5 per cent of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold

certificates shall be counted and included as part of the 40 percent reserve hereinbefore required. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of the notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 18 of this act upon security of United States 2 percent Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding Federal Reserve notes when offered by the Reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent."

(6) The eighth paragraph is amended to read as follows:

"All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safekeeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law."

(7) The sixteenth paragraph is amended to read as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury."

(8) The eighteenth paragraph is amended to read as follows:

"Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits."

SEC. 3. The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the conditions under which gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked: (a) for industrial, professional, and artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United States) only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations. Such regulations may exempt from the provisions of this section, in whole or in part, gold situated in the Philippine Islands or other places beyond the limits of the continental United States.

SEC. 4. Any gold withheld, acquired, transported, melted, or treated, imported, exported, or earmarked or held in custody, in violation of this Act or of any regulations issued hereunder, or licenses issued pursuant thereto, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

SEC. 5. No gold shall hereafter be coined, and no gold coin shall hereafter be paid out or delivered by the United States: *Provided, however,* That coinage may continue to be executed by the mints of the United States for foreign countries in accordance with the Act of January 29, 1874 (U.S.C., title 31, sec. 367). All gold coin of the United States shall be withdrawn from circulation, and, together with all other gold owned by the United States, shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treasury may direct.

SEC. 6. Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval of the President, no currency of the United States shall be redeemed in gold: *Provided, however,* That gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States: *And provided further,* That the reserve for United States notes and for Treasury notes of 1890, and the security for gold certificates (including the gold certificates held in the Treasury for credits payable therein) shall be maintained in gold bullion equal to the dollar amounts required by law, and the reserve for Federal Reserve notes shall be maintained in gold certificates, or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act, as heretofore and by this act amended.

No redemptions in gold shall be made except in gold bullion bearing the stamp of a United States mint or assay office in an amount equivalent at the time of redemption to the currency surrendered for such purpose.

SEC. 7. In the event that the weight of the gold dollar shall at any time be reduced, the resulting increase in value of the gold held by the United States (including the gold held as security for gold certificates and as a reserve for any United States notes and for Treasury notes of 1890) shall be covered into the Treasury as a miscellaneous receipt; and, in the event that the weight of the gold dollar shall at any time be increased, the resulting decrease in value of the gold held as a reserve for any United States notes and for Treasury notes of 1890, and as security for gold certificates shall be compensated by transfers of gold bullion from the general fund, and there is hereby appropriated an amount sufficient to provide for such transfers and to cover the decrease in value of the gold in the general fund.

SEC. 8. Section 3700 of the Revised Statutes (U.S.C., title 31, sec. 734) is amended to read as follows:

"SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to

be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

SEC. 9. Section 3699 of the Revised Statutes (U.S.C., title 31, sec. 733) is amended to read as follows:

"SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however,* That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

SEC. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of \$2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) All the powers conferred by this section shall expire two years after the date of enactment of this act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.

SEC. 11. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary may deem necessary or proper to carry out the purposes of this act.

SEC. 12. Paragraph (b) (2), of section 43, title III, of the act approved May 12, 1933 (Public, Numbered 10, Seventy-third Congress), is amended by adding two new sentences at the end thereof, reading as follows:

"Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency."

Paragraph (2) of subsection (b) of section 43, title III, of an act entitled "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended by adding at the end of said paragraph (2) the following:

"The President, in addition to the authority to provide for the unlimited coinage of silver at the ratio so fixed, under such terms and conditions as he may prescribe, is further authorized to cause to be issued and delivered to the tenderer of silver for coinage, silver certificates in lieu of the standard silver dollars to which the tenderer would be entitled and in an amount in dollars equal to the number of coined standard silver dollars that the tenderer of such silver for coinage would receive in standard silver dollars.

"The President is further authorized to issue silver certificates in such denominations as he may prescribe against any silver bullion, silver, or standard silver dollars in the Treasury not then held for redemption of any outstanding silver certificates, and to coin standard silver dollars or subsidiary currency for the redemption of such silver certificates.

"The President is authorized, in his discretion, to prescribe different terms and conditions and to make different charges, or to collect different seigniorage, for the coinage of silver of foreign production than for the coinage of silver produced in the United States or its dependencies. The silver certificates herein referred to shall be issued, delivered, and circulated substantially in conformity with the law now governing existing silver certificates, except as may herein be expressly provided to the contrary, and shall have and possess all of the privileges and the legal tender characteristics of existing silver certificates now in the Treasury of the United States, or in circulation.

"The President is authorized, in addition to other powers, to reduce the weight of the standard silver dollar in the same percentage that he reduces the weight of the gold dollar.

"The President is further authorized to reduce and fix the weight of subsidiary coins so as to maintain the parity of such coins with the standard silver dollar and with the gold dollar."

SEC. 13. All actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made, or issued by the President of the United States or the Secretary of the Treasury, under the act of March 9, 1933, or under section 43 or section 45 of title III of the act of May 12, 1933, are hereby approved, ratified, and confirmed.

SEC. 14. (a) The Second Liberty Bond Act, as amended, is further amended as follows:

(1) By adding at the end of section 1 (U.S.C., title 31, sec. 752; Supp. VII, title 31, sec. 752), a new paragraph as follows:

"Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan."

(2) By inserting in section 8 (U.S.C., title 31, sec. 771), after the words "certificates of indebtedness", a comma and the words "Treasury bills."

(3) By striking out the figures "\$7,600,000,000" where they appear in section 18 (U.S.C., title 31, sec. 753) and inserting in lieu thereof the figures "\$10,000,000,000."

(4) By adding thereto two new sections, as follows:

"SEC. 19. Notwithstanding any other provisions of law, any obligations authorized by this Act may be issued for the purchase, redemption, or refunding at or before maturity of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills, of the United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe.

"SEC. 20. The Secretary of the Treasury may issue any obligations authorized by this Act and maturing not more than one year from the date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final."

(b) Section 6 of the Victory Liberty Loan Act (U.S.C., title 31, sec. 767; Supp. VII, title 31, secs. 767-767a) is amended by striking out the words "for refunding purposes", together with the preceding comma, at the end of the first sentence of subsection (a).

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold cer-

tificates issued and outstanding shall at no time exceed the value, at the legal standard of the gold so held against gold certificates.

Sec. 15. As used in this Act the term "United States" means the Government of the United States; the term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "currency of the United States" means currency which is legal tender in the United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations; and the term "person" means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents. Wherever reference is made in this Act to equivalents as between dollars or currency of the United States and gold, one dollar or one dollar face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by this Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

Sec. 16. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Sec. 17. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed.

Approved, January 30, 1934.

[PUBLIC—No. 30—58TH CONGRESS]

AN ACT To define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the dollar consisting of twenty-five and eight-tenths grains of gold nine-tenths fine, as established by section thirty-five hundred and eleven of the Revised Statutes of the United States, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity.

Sec. 2. That United States notes, and Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, when presented to the Treasury for redemption, shall be redeemed in gold coin of the standard fixed in the first section of this act, and in order to secure the prompt and certain redemption of such notes as herein provided it shall be the duty of the Secretary of the Treasury to set apart in the Treasury a reserve fund of one hundred and fifty million dollars in gold coin and bullion, which fund shall be used for such redemption purposes only, and whenever and as often as any of said notes shall be redeemed from said fund it shall be the duty of the Secretary of the Treasury to use said notes so redeemed to restore and maintain such reserve fund in the manner following, to wit: First, by exchanging the notes so redeemed for any gold coin in the general fund of the Treasury; second, by accepting deposits of gold coin at the Treasury or at any subtreasury in exchange for the United States notes so redeemed; third, by procuring gold coin by the use of said notes, in accordance with the provisions of section thirty-seven hundred of the Revised Statutes of the United States. If the Secretary of the Treasury is unable to restore and maintain the gold coin in the reserve fund by the foregoing methods, and the amount of such gold coin and bullion in said fund shall at any time fall below one hundred million dollars, then it shall be his duty to restore the same to the maximum sum of one hundred and fifty million dollars by borrowing money on the credit of the United States, and for the debt thus incurred to issue and sell coupon or registered bonds of the United States, in such form as he may prescribe, in denominations of fifty dollars or any multiple thereof, bearing interest at the rate of not exceeding three per centum per annum, payable quarterly, such bonds to be payable at the pleasure of the United States after one year from the date of their issue, and to be payable, principal and interest, in gold coin of the present standard value and to

be exempt from the payment of all taxes or duties of the United States, as well as from taxation in any form by or under State, municipal, or local authority; and the gold coin received from the sale of said bonds shall first be covered into the general fund of the Treasury and then exchanged, in the manner hereinbefore provided, for an equal amount of the notes redeemed and held for exchange, and the Secretary of the Treasury may, in his discretion, use said notes in exchange for gold, or to purchase or redeem any bonds of the United States, or for any other lawful purpose the public interests may require, except that they shall not be used to meet deficiencies in the current revenues. That United States notes when redeemed in accordance with the provisions of this section shall be reissued, but shall be held in the reserve fund until exchanged for gold, as herein provided; and the gold coin and bullion in the reserve fund, together with the redeemed notes held for use as provided in this section, shall at no time exceed the maximum sum of one hundred and fifty million dollars.

SEC. 3. That nothing contained in this act shall be construed to affect the legal-tender quality as now provided by law of the silver dollar, or of any other money coined or issued by the United States.

SEC. 4. That there be established in the Treasury Department, as a part of the office of the Treasurer of the United States, divisions to be designated and known as the division of issue and the division of redemption, to which shall be assigned, respectively, under such regulations as the Secretary of the Treasury may approve, all records and accounts relating to the issue and redemption of United States notes, gold certificates, silver certificates, and currency certificates. There shall be transferred from the accounts of the general fund of the Treasury of the United States, and taken up on the books of said divisions, respectively, accounts relating to the reserve fund for the redemption of United States notes and Treasury notes, the gold coin held against outstanding gold certificates, the United States notes held against outstanding currency certificates, and the silver dollars held against outstanding silver certificates, and each of the funds represented by these accounts shall be used for the redemption of the notes and certificates for which they are respectively pledged, and shall be used for no other purpose, the same being held as trust funds.

SEC. 5. That it shall be the duty of the Secretary of the Treasury, as fast as standard silver dollars are coined under the provisions of the acts of July fourteenth, eighteen hundred and ninety, and June thirteenth, eighteen hundred and ninety-eight, from bullion purchased under the Act of July fourteenth, eighteen hundred and ninety, to retire and cancel an equal amount of Treasury notes whenever received into the Treasury, either by exchange in accordance with the provisions of this act or in the ordinary course of business, and upon the cancellation of Treasury notes silver certificates shall be issued against the silver dollars so coined.

SEC. 6. That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin with the Treasurer or any assistant treasurer of the United States in sums of not less than twenty dollars, and to issue gold certificates therefor in denominations of not less than twenty dollars, and the coin so deposited shall be retained in the Treasury and held for the payment of such certificates on demand, and used for no other purpose. Such certificates shall be receivable for customs, taxes, and all public dues, and when so received may be reissued, and when held by any national banking association may be counted as a part of its lawful reserve: *Provided*, That whenever and so long as the gold coin held in the reserve fund in the Treasury for the redemption of United States notes and Treasury notes shall fall and remain below one hundred million dollars the authority to issue certificates as herein provided shall be suspended: *And provided further*, That whenever and so long as the aggregate amount of United States notes and silver certificates in the general fund of the Treasury shall exceed sixty million dollars the Secretary of the Treasury may, in his discretion, suspend the issue of the certificates herein provided for: *And provided further*, That of the amount of such outstanding certificates one-fourth at least shall be in denominations of fifty dollars or less: *And provided further*, That the Secretary of the Treasury may, in his discretion, issue such certificates in denominations of ten thousand dollars, payable to order. And section fifty-one hundred and ninety-three of the Revised Statutes of the United States is hereby repealed.

SEC. 7. That hereafter silver certificates shall be issued only of denominations of ten dollars and under, except that not exceeding the aggregate ten per centum of the total volume of said certificates, in the discretion of the Secretary of the Treasury, may be issued in denominations of twenty dollars, fifty dollars, and one hundred dollars; and silver certificates of higher denomination than ten:

dollars, except as herein provided, shall, whenever received at the Treasury or redeemed, be retired and canceled, and certificates of denominations of ten dollars or less shall be substituted therefor, and after such substitution, in whole or in part, a like volume of United States notes of less denomination than ten dollars shall from time to time be retired and canceled, and notes of denominations of ten dollars and upward shall be reissued in substitution therefor, with like qualities and restrictions as those retired and canceled.

Sec. 8. That the Secretary of the Treasury is hereby authorized to use, at his discretion, any silver bullion in the Treasury of the United States purchased under the Act of July fourteenth, eighteen hundred and ninety, for coinage into such denominations of subsidiary silver coin as may be necessary to meet the public requirements for such coin: *Provided*, That the amount of subsidiary silver coin outstanding shall not at any time exceed in the aggregate one hundred millions of dollars. Whenever any silver bullion purchased under the Act of July fourteenth, eighteen hundred and ninety, shall be used in the coinage of subsidiary silver coin, an amount of Treasury notes issued under said Act equal to the cost of the bullion contained in such coin shall be canceled and not reissued.

Sec. 9. That the Secretary of the Treasury is hereby authorized and directed to cause all worn and uncurrent subsidiary silver coin of the United States now in the Treasury, and hereafter received, to be recoined, and to reimburse the Treasurer of the United States for the difference between the nominal or face value of such coin and the amount the same will produce in new coin from any moneys in the Treasury not otherwise appropriated.

Sec. 10. That section fifty-one hundred and thirty-eight of the Revised Statutes is hereby amended so as to read as follows:

"Section 5138. No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and except that banks with a capital of not less than twenty-five thousand dollars may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants. No association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than two hundred thousand dollars."

Sec. 11. That the Secretary of the Treasury is hereby authorized to receive at the Treasury any of the outstanding bonds of the United States bearing interest at five per centum per annum, payable February first, nineteen hundred and four, and any bonds of the United States bearing interest at four per centum per annum, payable July first, nineteen hundred and seven, and any bonds of the United States bearing interest at three per centum per annum, payable August first, nineteen hundred and eight, and to issue in exchange therefor an equal amount of coupon or registered bonds of the United States in such form as he may prescribe, in denominations of fifty dollars or any multiple thereof, bearing interest at the rate of two per centum per annum, payable quarterly, such bonds to be payable at the pleasure of the United States after thirty years from the date of their issue, and said bonds to be payable, principal and interest, in gold coin of the present standard value, and to be exempt from the payment of all taxes or duties of the United States, as well as from taxation in any form by or under State, municipal, or local authority: *Provided*, That such outstanding bonds may be received in exchange at a valuation not greater than their present worth to yield an income of two and one-quarter per centum per annum; and in consideration of the reduction of interest effected, the Secretary of the Treasury is authorized to pay to the holders of the outstanding bonds surrendered for exchange, out of any money in the Treasury not otherwise appropriated, a sum not greater than the difference between their present worth, computed as aforesaid, and their par value, and the payments to be made hereunder shall be held to be payments on account of the sinking fund created by section thirty-six hundred and ninety-four of the Revised Statutes: *And provided further*, That the two per centum bonds to be issued under the provisions of this Act shall be issued at not less than par, and they shall be numbered consecutively in the order of their issue, and when payment is made the last numbers issued shall be first paid, and this order shall be followed until all the bonds are paid, and whenever any of the outstanding bonds are called for payment interest thereon shall cease three months after such call; and there is hereby appropriated out of any money in the Treasury not otherwise appropriated, to effect the exchanges of bonds provided for in this

Act, a sum not exceeding one-fifteenth of one per centum of the face value of said bonds, to pay the expense of preparing and issuing the same and other expenses incident thereto.

SEC. 12. That upon the deposit with the Treasurer of the United States, by any national banking association, of any bonds of the United States in the manner provided by existing law, such association shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited; and any national banking association now having bonds on deposit for the security of circulating notes, and upon which an amount of circulating notes has been issued less than the par value of the bonds, shall be entitled, upon due application to the Comptroller of the Currency, to receive additional circulating notes in blank to an amount which will increase the circulating notes held by such association to the par value of the bonds deposited, such additional notes to be held and treated in the same way as circulating notes of national banking associations heretofore issued, and subject to all the provisions of law affecting such notes: *Provided*, That nothing herein contained shall be construed to modify or repeal the provisions of section fifty-one hundred and sixty-seven of the Revised Statutes of the United States, authorizing the Comptroller of the Currency to require additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which such bonds may be deposited as security: *And provided further*, That the circulating notes furnished to national banking associations under the provisions of this Act shall be of the denominations prescribed by law, except that no national banking association shall after the passage of this Act, be entitled to receive from the Comptroller of the Currency, or to issue or reissue or place in circulation, more than one-third in amount of its circulating notes of the denomination of five dollars: *And provided further*, That the total amount of such notes issued to any such association may equal at any time but shall not exceed the amount at such time of its capital stock actually paid in: *And provided further*, That under regulations to be prescribed by the Secretary of the Treasury any national banking association may substitute the two per centum bonds issued under the provisions of this Act for any of the bonds deposited with the Treasurer to secure circulation or to secure deposits of public money; and so much of an Act entitled "An Act to enable national banking associations to extend their corporate existence, and for other purposes," approved July twelfth, eighteen hundred and eighty-two, as prohibits any national bank which makes any deposit of lawful money in order to withdraw its circulating notes from receiving any increase of its circulation for the period of six months from the time it made such deposit of lawful money for the purpose aforesaid, is hereby repealed, and all other Acts or parts of Acts inconsistent with the provisions of this section are hereby repealed.

SEC. 13. That every national banking association having on deposit, as provided by law, bonds of the United States bearing interest at the rate of two per centum per annum, issued under the provisions of this act, to secure its circulating notes, shall pay to the Treasury of the United States, in the months of January and July, a tax of one-fourth of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of said two per centum bonds; and such taxes shall be in lieu of existing taxes on its notes in circulation imposed by section fifty-two hundred and fourteen of the Revised Statutes.

SEC. 14. That the provisions of this Act are not intended to preclude the accomplishment of international bimetallism whenever conditions shall make it expedient and practicable to secure the same by concurrent action of the leading commercial nations of the world and at a ratio which shall insure permanence of relative value between gold and silver.

Approved, March 14, 1900.

[U.S. CODE—TITLE 31—SEC. 428]

SECTION 428. *Gold certificates in exchange for gold bullion.*—The Secretary of the Treasury is authorized to receive deposits of gold bullion with the Treasurer or any agencies designated under section 476 of this title, in sums not less than \$20, and to issue certificates therefor, in denominations of not less than \$20 each, corresponding with the denominations of the United States notes. The bullion deposited for or representing the certificates of deposit shall be retained in the

Treasury for the payment of the same on demand. And certificates representing coin in the Treasury may be issued in payment of interest on the public debt, which certificates, together with those issued for coin and bullion deposited, shall not at any time exceed 20 per centum beyond the amount of coin and bullion in the Treasury. (R.S., sec. 254.)

Act Mar. 3, 1863, ch. 73, sec. 5, 12 Stat. 711.

[PUBLIC—No. 10—73D CONGRESS]

[H.R. 8835]

AN ACT To relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, * * **

TITLE III—FINANCING—AND EXERCISING POWER CONFERRED BY SECTION 8 OF ARTICLE I OF THE CONSTITUTION: TO COIN MONEY AND TO REGULATE THE VALUE THEREOF

SEC. 43. Whenever the President finds, upon investigation, that (1) the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currency of any other government or governments in relation to the present standard value of gold, or (2) action under this section is necessary in order to regulate and maintain the parity of currency issues of the United States, or (3) an economic emergency requires an expansion of credit, or (4) an expansion of credit is necessary to secure by international agreement a stabilization at proper levels of the currencies of various governments, the President is authorized, in his discretion—

(a) To direct the Secretary of the Treasury to enter into agreements with the several Federal Reserve banks and with the Federal Reserve Board whereby the Federal Reserve Board will, and it is hereby authorized to, notwithstanding any provisions of law or rules and regulations to the contrary, permit such reserve banks to agree that they will, (1) conduct, pursuant to existing law, throughout specified periods, open market operations in obligations of the United States Government or corporations in which the United States is the majority stockholder, and (2) purchase directly and hold in portfolio for an agreed period or periods of time Treasury bills or other obligations of the United States Government in an aggregate sum of \$3,000,000,000 in addition to those they may then hold, unless prior to the termination of such period or periods the Secretary shall consent to their sale. No suspension of reserve requirements of the Federal Reserve banks, under the terms of section 11(c) of the Federal Reserve Act, necessitated by reason of operations under this section, shall require the imposition of the graduated tax upon any deficiency in reserves as provided in said section 11(c). Nor shall it require any automatic increase in the rates of interest or discount charged by any Federal Reserve bank, as otherwise specified in that section. The Federal Reserve Board, with the approval of the Secretary of the Treasury, may require the Federal Reserve banks to take such action as may be necessary, in the judgment of the Board and of the Secretary of the Treasury, to prevent undue credit expansion.

(b) If the Secretary, when directed by the President, is unable to secure the assent of the several Federal Reserve banks and the Federal Reserve Board to the agreements authorized in this section, or if operations under the above provisions prove to be inadequate to meet the purposes of this section, or if for any other reason additional measures are required in the judgment of the President to meet such purposes, then the President is authorized—

(1) To direct the Secretary of the Treasury to cause to be issued in such amount or amounts as he may from time to time order, United States notes, as provided in the Act entitled "An Act to authorize the issue of United States notes and for the redemption of funding thereof and for funding the floating debt of the United States", approved February 25, 1862, and Acts supplementary thereto and amendatory thereof, in the same size and of similar color to the Federal Reserve notes heretofore issued and in denominations of \$1, \$5,

\$10, \$20, \$50, \$100, \$500, \$1,000, and \$10,000; but notes issued under this subsection shall be issued only for the purpose of meeting maturing Federal obligations to repay sums borrowed by the United States and for purchasing United States bonds and other interest-bearing obligations of the United States: *Provided*, That when any such notes are used for such purpose the bond or other obligations so acquired or taken up shall be retired and canceled. Such notes shall be issued at such times and in such amounts as the President may approve but the aggregate amount of such notes outstanding at any time shall not exceed \$3,000,000,000. There is hereby appropriated, out of any money in the Treasury not otherwise appropriated, an amount sufficient to enable the Secretary of the Treasury to retire and cancel 4 per centum annually of such outstanding notes, and the Secretary of the Treasury is hereby directed to retire and cancel annually 4 per centum of such outstanding notes. Such notes and all other coins and currencies heretofore or hereafter coined or issued by or under the authority of the United States shall be legal tender for all debts public or private.

(2) By proclamation to fix the weight of the gold dollar in grains nine tenths fine and also to fix the weight of the silver dollar in grains nine tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, or in case the Government of the United States enters into an agreement with any government or governments under the terms of which the ratio between the value of gold and other currency issued by the United States and by any such government or governments is established, the President may fix the weight of the gold dollar in accordance with the ratio so agreed upon, and such gold dollar, the weight of which is so fixed, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity, but in no event shall the weight of the gold dollar be fixed so as to reduce its present weight by more than 50 per centum.

SEC. 44. The Secretary of the Treasury, with the approval of the President, is hereby authorized to make and promulgate rules and regulations covering any action taken or to be taken by the President under subsection (a) or (b) of section 43.

SEC. 45. (a) The President is authorized, for a period of six months from the date of the passage of this Act, to accept silver in payment of the whole or any part of the principal or interest now due, or to become due within six months after such date, from any foreign government or governments on account of any indebtedness to the United States, such silver to be accepted at not to exceed the price of 50 cents an ounce in United States currency. The aggregate value of the silver accepted under this section shall not exceed \$200,000,000.

(b) The silver bullion accepted and received under the provisions of this section shall be subject to the requirements of existing law and the regulations of the mint service governing the methods of determining the amount of pure silver contained, and the amount of the charges or deductions, if any, to be made; but such silver bullion shall not be counted as part of the silver bullion authorized or required to be purchased and coined under the provisions of existing law.

(c) The silver accepted and received under the provisions of this section shall be deposited in the Treasury of the United States, to be held, used, and disposed of as in this section provided.

(d) The Secretary of the Treasury shall cause silver certificates to be issued in such denominations as he deems advisable to the total number of dollars for which such silver was accepted in payment of debts. Such silver certificates shall be used by the Treasurer of the United States in payment of any obligations of the United States.

(e) The silver so accepted and received under this section shall be coined into standard silver dollars and subsidiary coins sufficient, in the opinion of the Secretary of the Treasury, to meet any demands for redemption of such silver certificates issued under the provisions of this section, and such coins shall be retained in the Treasury for the payment of such certificates on demand. The silver so accepted and received under this section, except so much

thereof as is coined under the provisions of this section, shall be held in the Treasury for the sole purpose of aiding in maintaining the parity of such certificates as provided in existing law. Any such certificates or reissued certificates, when presented at the Treasury, shall be redeemed in standard silver dollars, or in subsidiary silver coin, at the option of the holder of the certificates: *Provided*, That, in the redemption of such silver certificates issued under this section, not to exceed one third of the coin required for such redemption may in the judgment of the Secretary of the Treasury be made in subsidiary coins, the balance to be made in standard silver dollars.

(f) When any silver certificates issued under the provisions of this section are redeemed or received into the Treasury from any source whatsoever, and belong to the United States, they shall not be retired, canceled, or destroyed, but shall be reissued and paid out again and kept in circulation; but nothing herein shall prevent the cancellation and destruction of mutilated certificates and the issue of other certificates of like denomination in their stead, as provided by law.

(g) The Secretary of the Treasury is authorized to make rules and regulations for carrying out the provisions of this section.

Sec. 46. Section 19 of the Federal Reserve Act, as amended, is amended by inserting immediately after paragraph (c) thereof the following new paragraph:

"Notwithstanding the foregoing provisions of this section, the Federal Reserve Board, upon the affirmative vote of not less than five of its members and with the approval of the President, may declare that an emergency exists by reason of credit expansion, and may by regulation during such emergency increase or decrease from time to time, in its discretion, the reserve balances required to be maintained against either demand or time deposits."

Approved May 12, 1933.

[PUBLIC RESOLUTION—No. 10—73d CONGRESS]

[H.J. Res. 192]

JOINT RESOLUTION To assure uniform value to the coins and currencies of the United States

Whereas the holding of or dealing in gold affect the public interest, and are therefore subject to proper regulation and restriction; and

Whereas the existing emergency has disclosed that provisions of obligations which purport to give the obligee a right to require payment in gold or a particular kind of coin or currency of the United States, or in an amount in money of the United States measured thereby, obstruct the power of the Congress to regulate the value of the money of the United States, and are inconsistent with the declared policy of the Congress to maintain at all times the equal power of every dollar, coined or issued by the United States, in the markets and in the payment of debts. Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) every provision contained in or made with respect to any obligation which purports to give the obligee a right to require payment in gold or a particular kind of coin or currency, or in an amount in money of the United States measured thereby, is declared to be against public policy; and no such provision shall be contained in or made with respect to any obligation hereafter incurred. Every obligation, heretofore or hereafter incurred, whether or not any such provision is contained therein or made with respect thereto, shall be discharged upon payment, dollar for dollar, in any coin or currency which at the time of payment is legal tender for public and private debts. Any such provision contained in any law authorizing obligations to be issued by or under authority of the United States, is hereby repealed, but the repeal of any such provision shall not invalidate any other provision or authority contained in such law.

(b) As used in this resolution, the term "obligation" means an obligation (including every obligation of and to the United States, excepting currency) payable in money of the United States; and the term "coin or currency" means coin or currency of the United States, including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations.

Sec. 2. The last sentence of paragraph (1) of subsection (b) of section 43 of the act entitled "An act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary ex-

penses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended to read as follows:

"All coins and currencies of the United States (including Federal Reserve notes and circulating notes of Federal Reserve banks and national banking associations) heretofore or hereafter coined or issued, shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, except that gold coins, when below the standard weight and limit of tolerance provided by law for the single piece, shall be legal tender only at valuation in proportion to their actual weight."

Approved, June 5, 1933, 4:40 p.m.

STATEMENT FOR THE PRESS RELATIVE TO PRESIDENT'S PROCLAMATION FIXING THE WEIGHT OF THE GOLD DOLLAR UNDER THE GOLD RESERVE ACT OF 1934, JANUARY 31, 1934

1. Acting under the powers granted by title 3 of the act approved May 12, 1933 (Thomas amendment to the Farm Relief Act), the President today issued a proclamation fixing the weight of the gold dollar at $15\frac{1}{2}$ grains nine tenths fine. This is 59.06 plus percent of the former weight of $25\frac{1}{10}$ grains, nine tenths fine, as fixed by section 1 of the act of Congress of March 14, 1900. The new gold content of the dollar became effective immediately on the signing of the proclamation by the President.

Under the Gold Reserve Act of 1934, signed by the President Tuesday, January 30, title to the entire stock of monetary gold in the United States, including the gold coin and gold bullion heretofore held by the Federal Reserve banks and the claim upon gold in the Treasury represented by gold certificates, is vested in the United States Government and the "profit" from the reduction of the gold content of the dollar, made effective by today's proclamation, accrues to the United States Treasury. Of this "profit" 2 billion dollars, under the terms of the Gold Reserve Act and of today's proclamation, constitutes a stabilization fund under the direction of the Secretary of the Treasury. The balance will be covered into the general fund of the Treasury.

Settlement for the gold coin, bullion and certificates taken over from the Federal Reserve banks on Tuesday upon the approval of the act was made in the form of credits set up on the Treasury's books. This credit due the Federal Reserve banks is to be paid in the new form of gold certificates now in course of production by the Bureau of Engraving and Printing. These certificates bear on their face the wording:

"This is to certify that there is on deposit in the Treasury of the United States of America ——— dollars in gold, payable to bearer on demand as authorized by law."

They also will carry the standard legal tender clause, which is as follows:

"This certificate is a legal tender in the amount thereof in payment of all debts and dues public and private."

The new gold certificates will be of the same size as other currency in circulation, and the only difference, other than the changes in wording noted above, is that the backs of the new certificates will, as used to be done, be printed in yellow ink. The certificates will be in denominations up to \$100,000.

In his proclamation of today the President gives notice that he reserves the right, by virtue of the authority vested in him, to alter or modify the present proclamation as the interest of the United States may seem to require. The authority by later proclamations to accomplish other revaluations of the dollar in terms of gold is contained in the Gold Reserve Act signed on Tuesday.

2. The Secretary of the Treasury, with the approval of the President, issued a public announcement that beginning February 1, 1934, he will buy through the Federal Reserve Bank of New York as fiscal agent, for the account of the United States, any and all gold delivered to any United States Mints or the assay offices in New York or Seattle, at the rate of \$35 per fine troy ounce, less the usual mint charges and less one-fourth of 1 percent for handling charges. Purchases, however, are subject to compliance with the regulations issued under the Gold Reserve Act of 1934.

3. The Secretary of the Treasury today promulgated new regulations with respect to the purchase and sale of gold by the mints. Under these regulations the mints are authorized to purchase gold recovered from natural deposits in the United States or any place subject to its jurisdiction. Unmelted scrap gold, gold imported into the United States after January 30, 1934, and such other gold as may be authorized from time to time by rulings of the Secretary of the Treasury. No gold, however, may be purchased which has been held in noncompliance with previous acts or orders, or noncompliance with the Gold Reserve Act of 1934, or these regulations. Affidavits as to the source from which the gold was obtained are required, except in the case of nuggets or dust of less than 5 ounces, where a statement under oath will suffice. In the case of imported gold, the mints may purchase only that which has been in customs custody after its arrival in the Continental United States.

The price to be paid for gold purchased by the mints is to be \$35 per troy ounce of fine gold, less one fourth of 1 percent and less mint charges. This price may be changed by the Secretary of the Treasury at any time without notice.

The mints are authorized to sell gold to persons licensed to acquire it for use in the industries, professions, or arts, but not to sell more than is required for a 3 months' supply for the purchaser. The price at which gold is to be sold by the mints will be \$35 per troy ounce, plus one fourth of 1 percent. This price also may be changed by the Secretary of the Treasury without notice.

JANUARY 31, 1934, PROCLAMATION OF THE PRESIDENT FIXING THE WEIGHT OF THE GOLD DOLLAR PURSUANT TO THE GOLD RESERVE ACT OF 1934

A PROCLAMATION BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

Whereas, by virtue of section 1 of the act of Congress approved March 14, 1900 (31 Stat.L. 45), the present weight of the gold dollar is fixed at $25\frac{1}{16}$ grains of gold nine tenths fine; and

Whereas, by section 43, title III of the act approved May 12, 1933 (Public, No. 10, 73d Cong.), as amended by section 12 of the Gold Reserve Act of 1934, it is provided in part as follows:

"Whenever the President finds, upon investigation, that (1) the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currency of any other government or governments in relation to the present standard value of gold, or (2) action under this section is necessary in order to regulate and maintain the parity of currency issues of the United States, or (3) an economic emergency requires an expansion of credit, or (4) an expansion of credit is necessary to secure by international agreement a stabilization at proper levels of the currencies of various governments, the President is authorized, in his discretion—

"(a) To direct the Secretary of the Treasury to enter into agreements with the several Federal Reserve banks and with the Federal Reserve Board whereby the Federal Reserve Board will, and it is hereby authorized to, notwithstanding any provisions of law or rules and regulations to the contrary, permit such reserve banks to agree that they will, (1) conduct, pursuant to existing law, throughout specified periods, open-market operations in obligations of the United States Government or corporations in which the United States is the majority stockholder, and (2) purchase directly and hold in portfolio for an agreed period or periods of time Treasury bills or other obligations of the United States Government in an aggregate sum of \$3,000,000,000 in addition to those they may then hold, unless prior to the termination of such period or periods the Secretary shall consent to their sale. No suspension of reserve requirements of the Federal Reserve banks, under the terms of section 11 (c) of the Federal Reserve Act, necessitated by reason of operations under this section, shall require the imposition of the graduated tax upon any deficiency in reserves as provided in said section 11 (c). Nor shall it require any automatic increase in the rates of interest or discount charged by any Federal Reserve bank, as otherwise specified in that section. The Federal Reserve Board, with the approval of the Secretary of the Treasury, may require the Federal Reserve banks to take such action as may be necessary, in the judgment of the Board and of the Secretary of the Treasury, to prevent undue credit expansion.

"(b) If the Secretary, when directed by the President, is unable to secure the assent of the several Federal Reserve banks and the Federal Reserve Board to the agreements authorized in this section, or if operations under the above provisions prove to be inadequate to meet the purposes of this section, or if for any other reason additional measures are required in the judgment of the President to meet such purposes, then the President is authorized—

* * * * *

"(2) By proclamation to fix the weight of the gold dollar in grains nine tenths fine and also to fix the weight of the silver dollar in grains nine tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, or in case the Government of the United States enters into an agreement with any government or governments under the terms of which the ratio between the value of gold and other currency issued by the United States and by any such government or governments is established, the President may fix the weight of the gold dollar in accordance with the ratio so agreed upon, and such gold dollar, the weight of which is so fixed, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity, but in no event shall the weight of the gold dollar be fixed so as to reduce its present weight by more than 50 per centum. Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency"; and

Whereas, I find, upon investigation, that the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currencies of other governments in relation to the present standard value of gold, and that an economic emergency requires an expansion of credit; and

Whereas, in my judgment, measures additional to those provided by subsection (a) of said section 43 are required to meet the purposes of such section; and

Whereas I find, from my investigation, that, in order to stabilize domestic prices and to protect the foreign commerce against the adverse effect of depreciated foreign currencies, it is necessary to fix the weight of the gold dollar at 15 5/21 grains nine tenths fine,

Now, therefore, be it known that I, Franklin D. Roosevelt, President of the United States, by virtue of the authority vested in me by section 43, title III of said act of May 12, 1933, as amended, and by virtue of all other authority vested in me, do hereby proclaim, order, direct, declare and fix the weight of the gold dollar to be 15 5/21 grains nine tenths fine, from and after the date and hour of this proclamation. The weight of the silver dollar is not altered or affected in any manner by reason of this proclamation.

This proclamation shall remain in force and effect until and unless repealed or modified by act of Congress or by subsequent proclamation; and notice is hereby given that I reserve the right by virtue of the authority vested in me to alter or modify this proclamation as the interest of the United States may seem to require.

In Witness Whereof I have hereunto set my hand and have caused the seal of the United States to be affixed.

Done in the city of Washington at 3:10 o'clock in the afternoon, Eastern Standard time, this 31st day of January, in the year of our Lord 1934, and of the Independence of the United States the one hundred and fifty-eighth.

[SEAL]

FRANKLIN D. ROOSEVELT.

By the President:

CORDELL HULL, *Secretary of State.*

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
January 31, 1934.

PROVISIONAL REGULATIONS

ISSUED UNDER THE

GOLD RESERVE ACT OF 1934

ARTICLE I. GENERAL PROVISIONS

SECTION 1. Authority for regulations.—These regulations, deemed necessary and proper by the Secretary of the Treasury to carry out the purposes of the Gold Reserve Act of 1934, approved January 30, 1934, are issued by the Secretary of the Treasury, with the approval of the President, under authority of said Act.

SEC. 2. Scope.—Articles II, III, IV, and V of these regulations refer particularly to section 3 of the Gold Reserve Act of 1934; and articles VI and VII refer particularly to sections 8 and 9, respectively, thereof.

The provisions of these regulations may be revoked or modified at any time and any license outstanding at the time of such revocation or modification shall be modified thereby to the extent provided in such revocation or modification.

SEC. 3. Titles and subtitles.—The titles and subtitles of these regulations are inserted for purposes of ready reference and are not to be construed as constituting a part of these regulations.

SEC. 4. Definitions.—As used in these regulations, the term—

“Act” means the Gold Reserve Act of 1934, approved January 30, 1934.

“United States” means the Government of the United States, or, where used to denote a geographical area, means the continental United States and all other places subject to the jurisdiction of the United States.

“Continental United States” means the States of the United States, the District of Columbia, and the Territory of Alaska.

“Currency of the United States” means currency which is legal tender in the continental United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations.

“Person” means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents.

"Mint" means a United States mint or assay office, and wherever authority is conferred upon a "mint" such authority is conferred upon the person locally in charge of the respective United States mint or assay office acting in accordance with the instructions of the Director of the Mint or the Secretary of the Treasury.

"Mint district" means one of the following areas:

The mint district of Philadelphia, which for the purposes of these regulations consists of the States of Illinois, Indiana, Kentucky, Maryland, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Virginia, and West Virginia, and the District of Columbia.

The mint district of New York, which for the purposes of these regulations consists of the States of Connecticut, Delaware, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Rhode Island, Vermont, and Wisconsin, and Puerto Rico, the Virgin Islands of the United States, and the Panama Canal Zone.

The mint district of Denver, which for the purposes of these regulations consists of the States of Colorado, Iowa, Kansas, Minnesota, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Utah, and Wyoming.

The mint district of San Francisco, which for the purposes of these regulations consists of the States of Arizona, California, and Nevada, and the Territories and possessions of the United States not specifically included in other mint districts.

The mint district of Seattle, which for the purposes of these regulations consists of the States of Idaho, Montana, Oregon, and Washington, and the Territory of Alaska.

The mint district of New Orleans, which for the purposes of these regulations consists of the States of Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Tennessee, and Texas.

"Gold coin" means any coin containing gold as a major element, including gold coin of a foreign country.

"Gold bullion" means any gold which has been put through a process of smelting or refining, and which is in such state or condition that its value depends primarily upon the gold content and not upon its form; but it does not include metals containing less than 5 troy ounces of fine gold per short ton, nor does it include gold coin.

"Fabricated gold" means gold which has, in good faith and not for the purpose of evading, or enabling others to evade, the provisions of the Act or of these regulations, been processed or manufactured for some one or more specific and customary industrial, professional, or artistic uses, but does not include gold coin or scrap gold.

"Scrap gold" means gold sweepings and fabricated gold, the value of which depends primarily upon its gold content and not

upon its form, which is no longer held for the use for which it was processed or manufactured.

Wherever reference is made in these regulations to *equivalents as between dollars or currency of the United States and gold*, \$1 or \$1 face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by the Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

Wherever reference is made in these regulations to "articles" or "sections", the reference is, unless otherwise indicated, to the designated articles and sections of these regulations.

SEC. 5. General provisions affecting applications, affidavits, and reports.—Every application, affidavit, and report required to be made hereunder shall be made upon the appropriate form prescribed by the Secretary of the Treasury and, except insofar as these regulations may otherwise specify, shall be executed under oath before an officer authorized to administer oaths. Duplicate copies properly executed shall be filed with the agencies designated in these regulations for that purpose. Action upon any application or affidavit may be withheld pending the furnishing of any or all of the information required in such forms or of such additional information as may be deemed necessary by the Secretary of the Treasury, or the agency authorized or directed to act hereunder. There shall be attached to the applications, affidavits, or reports such instruments as may be required by the terms thereof and such further instruments as may be required by the Secretary of the Treasury, or by such agency. Whenever additional information is requested it shall be furnished under oath.

SEC. 6. General provisions affecting licenses.—(1) Licenses issued pursuant to these regulations shall be upon the appropriate form prescribed by the Secretary of the Treasury. Licenses shall be non-transferable and shall entitle the licensee to acquire, transport, melt or treat, import, export, or earmark or hold in custody for foreign or domestic account, gold only in such form and to the extent permitted by, and subject to the conditions prescribed in, these regulations and such licenses.

(2) Licenses may be modified or revoked at any time in the discretion of the Secretary of the Treasury acting directly, or through the agency which issued the license, or any other agency designated by

the Secretary of the Treasury. In the event that a license is modified or revoked (other than by a modification or revocation of these regulations), the Secretary of the Treasury, or the agency through which the license was issued, or such other agency designated by the Secretary of the Treasury, shall advise the licensee by letter mailed to the address of the licensee set forth in the application. The licensee, upon receipt of such advice, shall forthwith surrender his license as directed in such advice. If the license has been modified but not revoked, the Secretary of the Treasury, or the agency through which the original license was issued, shall thereupon issue a modified license.

(8) No license issued hereunder shall authorize the licensee to hold any gold coin, or any gold melted by any person from gold coin, unless the license contains a specific provision to that effect.

(4) No license issued hereunder shall exempt the licensee from the duty of complying with the legal requirements of any State or Territory or local authority.

(5) No license shall be issued to any person doing business under a name which, in the opinion of the Secretary of the Treasury or the designated agency issuing the license, is designed or is likely to induce the belief that gold is purchased, treated, or sold on behalf of the United States or for the purpose of carrying out any policy of the United States.

SEC. 7. General provisions affecting export licenses.—At the time any license to export gold is issued, the Federal Reserve bank or mint issuing the same shall transmit a copy thereof to the collector of customs at the port of export designated in the license. Collectors of customs shall not permit the export or transportation from the continental United States of gold in any form except upon surrender of a license to export, a copy of which has been received by him from the Federal Reserve bank or the mint issuing such license: *Provided, however,* That the export, or transportation from the continental United States, of fabricated gold may be permitted subject to the provisions of section 16(2): *And provided further,* That gold held by the Federal Reserve banks under article IV may be exported for the purposes of such article without a license. The collector of customs to whom a license to export is surrendered shall cancel such license and return it to the Federal Reserve bank or mint which issued the same. In the event that the shipment is to be made by mail, a copy of the export license shall be sent to the postmaster of the post office designated in the application, who will act under the instructions of the Postmaster General in regard thereto.

SEC. 8. General provisions affecting import licenses.—No gold in any form imported into the United States shall be permitted to enter

until the person importing such gold shall have satisfied the collector of customs at the port of entry that he holds a license authorizing him to import such gold or that such gold may be imported without a license under the provisions of article II or IV. Postmasters receiving packages containing gold will deliver such gold subject to the instructions of the Postmaster General.

SEC. 9. Forms available.—Any form, the use of which is prescribed in these regulations, may be obtained at, or on written request to, any United States mint or assay office, Federal Reserve bank, and at the Treasury Department, Washington, D.C.

SEC. 10. Representations by licensees.—Licensees may include in public and private representations or statements the clause "licensed on form TGL _____ (here inserting the number of the form of license held by the licensee) pursuant to the regulations prescribed under the Gold Reserve Act of 1934", but any representation or statement which might induce the belief that the licensee is acting or is especially privileged to act on behalf of or for the United States, or is purchasing, treating, or selling gold for the United States, or in any way dealing in gold for the purpose of carrying out any policy of the United States, shall be a violation of the conditions of the license. Each agency issuing licenses hereunder which receives notice of any such representations or statements made by or with the acquiescence of any licensee shall promptly notify the Secretary of the Treasury in order that he may advise it whether or not the license of the person making such representations or statements, or permitting such representations or statements to be made, should be revoked.

SEC. 11. Penalties.—Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody in violation of the Act, or of any regulations issued thereunder, including these regulations, or of any licenses issued pursuant thereto or hereto, shall be forfeited to the United States and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and, in addition, any person failing to comply with the provisions of the Act or of any such regulations or licenses shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

ARTICLE II. CONDITIONS UNDER WHICH GOLD MAY BE ACQUIRED AND HELD, TRANSPORTED, MELTED OR TREATED, IMPORTED, EXPORTED, OR EARMARKED OR HELD IN CUSTODY FOR FOREIGN OR DOMESTIC ACCOUNT

SEC. 12. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United

States), only to the extent permitted by, and subject to the conditions prescribed in, these regulations or licenses issued pursuant to these regulations.

SEC. 13. Transportation of gold.—Gold may be transported by carriers for persons who are licensed to hold and transport such gold or who are permitted by these regulations to hold and transport gold without a license.

SEC. 14. Gold situated outside of the United States.—Gold in any form situated outside of the United States may be acquired, transported, melted or treated, or earmarked or held in custody for foreign or domestic account without the necessity of holding a license.

SEC. 15. Gold situated in the possessions of the United States.—Gold in any form (other than United States gold coin) situated in places subject to the jurisdiction of the United States beyond the limits of the continental United States may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for the account of persons other than residents of the continental United States, by persons not domiciled in the continental United States: *Provided, however,* That gold may be transported from the continental United States to the possessions of the United States only under license for export issued pursuant to sections 25(3), 32, 33, or 34, or, if fabricated gold, subject to the conditions specified in section 16(2).

SEC. 16. Fabricated gold.—(1) Fabricated gold may be acquired, transported within the United States, imported, or held in custody for domestic account without the necessity of holding a license therefor: *Provided, however,* That it may be transported from the continental United States to other places subject to the jurisdiction of the United States only subject to the conditions hereinafter specified in paragraph (2) of this section.

(2) Fabricated gold may be exported, or transported from the continental United States, without the necessity of obtaining a license, provided that an affidavit shall have been executed on form TG-10 and filed in duplicate with the collector of customs at the port of shipment from the continental United States or with the postmaster at the place of mailing; and such collector or postmaster shall have endorsed on the duplicate copy of such affidavit that he is satisfied that the shipment from the continental United States is not being made for the purpose of holding or disposing of the fabricated gold outside of the continental United States primarily for the value of the gold content: *Provided, further,* That persons leaving the continental United States may carry with them fabricated gold owned by them and for their personal use in its fabricated form of a fine gold content not exceeding 15 ounces without the necessity of filing such affidavit or obtaining an export license.

SEC. 17. Metals containing gold.—Metals containing not more than 5 troy ounces of fine gold per short ton may be acquired, transported within the United States, imported, or held in custody for domestic account without the necessity of obtaining a license therefor. Such metals may be melted or treated, exported, and held in custody for foreign account only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, article III.

SEC. 18. Unmelted scrap gold.—Unmelted scrap gold may be held and transported within the United States in amounts containing not more than 5 troy ounces of fine gold without the necessity of holding a license.

SEC. 19. Gold in its natural state.—Gold in its natural state (i.e., gold recovered from natural sources which has not been melted, smelted, or refined or otherwise treated by heating or by a chemical or electrical process) may be acquired, transported within the United States, imported, or held in custody for domestic account without the necessity of holding a license therefor. Such native gold may be melted or treated or exported only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, article III.

SEC. 20. Rare coin.—Gold coin of recognized special value to collectors of rare and unusual coin (but not including quarter eagles, otherwise known as \$2.50 pieces, unless held, together with rare and unusual coin and as part of a collection for historical, scientific, or numismatic purposes, containing not more than four quarter eagles of the same date and design, and struck by the same mint) may be acquired and held, transported within the United States, imported, or held in custody for domestic account without the necessity of holding a license therefor. Such coin may be exported only under license on form TGL-11 issued by the Director of the Mint. Application for such a license shall be executed on form TG-11 and filed with the Director of the Mint, Washington, D.C.

ARTICLE III. GOLD FOR INDUSTRIAL, PROFESSIONAL, AND ARTISTIC USE

SECTION 21. "Twenty-five-ounce exemption".—Any person requiring gold for use in the industry, profession, or art in which he is regularly engaged may replenish his stocks of gold (in addition to fabricated gold) up to the amount actually required for a period not exceeding 3 months (but in no event in an aggregate amount exceeding 25 ounces of fine gold held at any one time) by acquisitions of gold bullion held under licenses issued pursuant to section 23, without the necessity of obtaining a license for such acquisitions; and the gold so acquired may be held, transported, melted or treated, for use by such person in his industry, profession, or art but for no other purpose. Gold may not be acquired and held under this section by

persons engaged primarily or incidentally in the business of buying and selling gold other than fabricated gold.

SEC. 22. Licenses required.—Except as permitted in article II and in section 21 of this article, gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked for industrial, professional, or artistic use only to the extent permitted by licenses issued under section 23 hereof.

SEC. 23. Purposes for which licenses shall be issued.—The mints shall issue licenses authorizing the acquisition and holding, transportation, melting and treating, importing, exporting, and holding for domestic account of gold which the mint is satisfied is required for legitimate and customary use in industry, profession, or art, by an applicant regularly engaged in the mint district of such mint (1) in the business of furnishing or processing gold for industry, profession, or art, or for sale to the United States, (2) in an industry, profession, or art in which stocks of gold in excess of 25 fine ounces are required to be maintained by the applicant.

SEC. 24. Applications.—Every application for a license under section 23 shall be made on form TG-12 (except that applications for export shall be made on form TG-15) and shall be filed in duplicate with the United States mint for the mint district in which is located the applicant's principal place of business. No person shall make application to more than one mint; and, in the event any one person is, through misrepresentation or mistake, issued a license under this article by more than one mint, all licenses issued to such person shall be void from the date of issuance to such person of a license by a second mint. Every applicant for a license under section 23 shall state in his application whether or not any applications have been filed by or licenses issued to any partnership, association, or corporation in which the applicant has a substantial interest or if the applicant is a partnership, association, or corporation, by or to a person having a substantial interest in such partnership, association, or corporation. No mint shall issue any license to any person if in its judgment more than one license for the same purpose will be held for the principal use or benefit of the same persons or interests. Any person licensed under this article acquiring a principal interest in any partnership, association, or corporation holding a license under this article for this purpose shall immediately so inform the mints which issued the licenses.

SEC. 25. Licenses.—(1) Upon receipt of the application and after making such investigation of the case as it may deem advisable, the mint, if satisfied that gold is necessary for the legitimate and customary requirements of the applicant's industry, profession, art,

or business, shall issue to the applicant a license on form TGL-12, TGL-13, or TGL-14, whichever is designated in rulings of the Secretary of the Treasury for the kind of business, industry, profession, or art in which the applicant is engaged.

(2) Licenses issued under this article may entitle the licensee to acquire and hold not to exceed a maximum amount specified therein, which amount shall not be greater than the estimated requirements of the licensee for a period of 3 months; and such license may authorize the licensee to transport such gold from place to place within the United States, melt or treat it to the extent necessary to meet the requirements of the industry, profession, or art for which it was acquired and held or otherwise to carry out the purposes for which it is held under license, and may authorize the licensee to import gold so long as the maximum amount of gold held after importation does not exceed the maximum amount authorized by the license to be held.

(3) No license on form TGL-12, TGL-13, or TGL-14, shall authorize the licensee to export or transport from the continental United States, without a supplementary license on form TGL-15 issued by the mint which issued the license on form TGL-12, TGL-13, or TGL-14, gold in any form (except that fabricated gold may be exported or transported from the continental United States subject to the conditions specified in section 16 (2)). Export licenses on form TGL-15 shall be issued only with the approval of the Secretary of the Treasury, and upon application made on form TG-15 showing to the satisfaction of the mint and the Secretary of the Treasury that the export or transport from the continental United States is for a specific and customary industrial, professional, or artistic use connected with the applicant's business, and not for the purpose of using or holding or disposing of such gold beyond the limits of the continental United States as, or in lieu of, money, or for the value of its gold content.

(4) No license issued under this article shall entitle the licensee to acquire and hold, transport, melt or treat, import or export, or hold in custody any gold coin.

SEC. 26. Records.—Every person holding a license issued pursuant to section 23 shall keep exact records of all his acquisitions and deliveries of gold. His records shall contain the name, address, and license number of each person from whom he acquires, or to whom he delivers, gold (other than fabricated gold) and shall show the amount, date, and description of each such acquisition and delivery, and such records shall be available for examination by a representative of the Treasury Department for at least 1 year after the date of the disposition of such gold.

SEC. 27. Reports.—Every person holding a license on form TGL-12, TGL-13, or TGL-14 shall file with the mint which issued his license, on or before the 15th day of February, May, August, and November, a report on form TGR-12, TGR-13, or TGR-14, respectively, for the quarter ending on the first day of such months.

ARTICLE IV. GOLD FOR THE PURPOSE OF SETTLING INTERNATIONAL BALANCES, AND FOR OTHER PURPOSES

SEC. 28.—The Federal Reserve banks may from time to time acquire from the United States by redemption of gold certificates in accordance with section 6 of the Act, such amounts of gold bullion as, in the judgment of the Secretary of the Treasury, are necessary to settle international balances or to maintain the equal purchasing power of every kind of currency of the United States. Such banks may also acquire gold abroad or may acquire gold in the United States which has not been held in noncompliance with the Executive orders, or the orders of the Secretary of the Treasury, issued under sections 2 and 3 of the Act of March 9, 1933, entitled "An act to provide relief in the existing national emergency in banking and for other purposes", or in noncompliance with any regulations or rulings made thereunder or licenses issued pursuant thereto, or acquired and held, transported, melted or treated, imported, exported, earmarked or held in custody for foreign or domestic account in violation of the Act or regulations issued thereunder, including these regulations.

SEC. 29.—The gold acquired under section 28 may be held, transported, imported, exported, or earmarked or held in custody for foreign or domestic account for the purposes of settling international balances or maintaining the equal purchasing power of every kind of currency of the United States: *Provided*, That if the gold is not used for such purposes within 6 months from the date of acquisition, it shall (unless the Secretary of the Treasury shall have extended the period within which such gold may be so held) be paid and delivered to the Treasurer of the United States against payment therefor by credits in equivalent amounts in dollars in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as amended.

SEC. 30.—The provisions of this article shall not be construed to permit any person subject to the jurisdiction of the United States, other than a Federal Reserve bank, to acquire gold for the purposes specified in this article, or to permit any person to acquire gold from a Federal Reserve bank except to the extent that his license issued hereunder specifically so provides.

ARTICLE V. GOLD FOR OTHER PURPOSES NOT INCONSISTENT WITH THE PURPOSES OF THE GOLD RESERVE ACT OF 1934

SEC. 31. Licenses required.—Gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account, for purposes other than those specified in articles III and IV not inconsistent with the purposes of the Act only to the extent permitted in article II or under a license issued under section 32, 33, or 34.

SEC. 32. Gold imported in gold-bearing materials for reexport.—The United States assay office at New York or the United States mint at San Francisco shall issue licenses on form TGL-16, authorizing the export of gold which such assay office or mint is satisfied was refined (or is equivalent to gold refined) from gold-bearing materials imported into the United States, provided such gold is imported, acquired, and held, transported, melted and treated as permitted in article II or in accordance with a license issued under section 23 hereof and subject to the following provisions:

(1) *Notation upon entry.*—Upon the formal entry into the United States of any gold-bearing materials, the importer shall declare to the collector of customs at the port where the material is formally entered that the importation is made with the intention of exporting the gold refined therefrom. The collector shall make on the entry a notation to this effect and forward a copy of the entry to the United States assay office at New York or to the United States mint at San Francisco, whichever is designated by the importer.

(2) *Sampling and assaying.*—Promptly upon the receipt of each importation of gold-bearing material at the plant where it is first to be treated, it shall be weighed, sampled, and assayed for the gold content. A reserve commercial sample shall be retained by such plant for at least 1 year from the date of importation, unless the assay is sooner verified by the Treasury Department.

(3) *Plant records.*—The importer shall cause an exact record, covering each importation, to be kept at the plant of first treatment. The records shall show the gross wet weight of the importation, the weight of containers, if any, the net wet weight, the percentage and weight of moisture, the net dry weight, and the gold content shown by the settlement assay. An attested copy of such record shall be filed promptly with the assay office at New York or the mint at San Francisco, whichever has been designated to receive a copy of the entry. The plant records herein required to be kept shall be available for examination by a representative of the Treasury Department for at least 1 year after the date of the disposition of such gold.

(4) *Application for export license.*—Not later than 3 months from the date of entry the importer shall file with the New York assay office or the mint at San Francisco, whichever has been designated to receive a copy of the entry, an application on form TG-16 for a permit to export refined gold not in excess of the amount shown by the settlement sheet covering the importation. The application shall be accompanied by two duly attested copies of the settlement sheet.

(5) *Issuance of serial numbered certificates.*—If the mint is satisfied as to the accuracy of the data shown on such application, it shall issue to the importer a dated serial numbered certificate, which shall show the amount of gold specified by the application and the amount specified by the settlement sheet. The Director of the Mint shall prescribe the form of such certificate.

(6) *Issuance of export license.*—Upon delivery of the serial numbered certificate to the assay office at New York or to the mint at San Francisco, whichever has issued the certificate, within 120 days from the date the certificate was issued, the mint shall issue to the applicant an export license on form TGL-16 to export refined gold in an amount not exceeding the amount specified in the settlement sheet as shown on such certificate.

(7) *Exportation prior to receipt of settlement sheet.*—Upon a showing in the application that an exportation with respect to any gold-bearing materials imported into the United States for refining is necessary prior to the time the settlement sheet can be procured, the assay office at New York or the mint at San Francisco, whichever was designated by the importer, may receive the application with duplicate certified copies of the report of the applicant's actual test assay. If prior reports of such applicant have been approximately substantiated by the settlement sheets, a license to export up to 90 percent of the amount of gold which such report estimates will be realized from such gold-bearing materials may be granted.

SEC. 33. *Gold imported for reexport.*—Gold may be imported, transported, and exported without the necessity of holding a license, provided the gold remains under customs custody throughout the period during which it is within the customs limits of the United States. Except as provided in the foregoing sentence, gold may be imported for reexport, held, and transported within the United States under the provisions of this section only under license. The United States assay office at New York or the United States mint at San Francisco may, subject to the following provisions, issue licenses on form TGL-17 authorizing the importation, holding, transportation, and exportation of gold which the office or mint is satisfied is imported for prompt reexport.

(1) *Notation upon entry.*—Upon the formal entry into the United States of gold intended for prompt reexport, the importer shall declare to the collector of customs at the port where the gold is formally entered that it is entered for prompt reexport. The collector shall make a notation of this declaration upon the entry and forward a copy of the entry to the assay office at New York or the mint at San Francisco, whichever is designated by the importer.

(2) *Application for license.*—The importer shall forthwith file an application on form TG-17 with the assay office at New York or the mint at San Francisco, whichever has been designated to receive a copy of the entry.

(3) *License.*—Upon receipt of the application and after making such investigation of the case as it may deem advisable, the assay office or mint to which the application is made, if satisfied that the gold was imported for prompt reexport, shall issue to the applicant a license on form TGL-17.

SEC. 34. The Secretary of the Treasury, with the approval of the President, shall issue licenses authorizing the acquisition, transportation, melting or treating, importing, exporting, or earmarking or holding in custody for foreign or domestic account of gold, for purposes other than those specified in articles III and IV, and sections 32 and 33 of this article, which, in the judgment of the Secretary of the Treasury, are not inconsistent with the purposes of the Act, subject to the following provisions:

(1) *Applications.*—Every application for a license under this section shall be made on form TG-18 and shall be filed in duplicate with the Federal Reserve bank for the district in which the applicant resides or has his principal place of business. Upon receipt of the application and after making such investigation of the case as it may deem advisable, the Federal Reserve bank shall transmit to the Secretary of the Treasury the original of the application, together with any supplemental information it may deem appropriate. The Federal Reserve bank shall retain the duplicate of the application for its records.

(2) *Licenses.*—If the issuance of a license is approved, the Federal Reserve bank which received and transmitted the application will be advised by the Secretary of the Treasury and directed to issue a license on form TGL-18. If a license is denied, the Federal Reserve bank will be so advised and shall immediately notify the applicant. The decision of the Secretary of the Treasury with respect to the granting or denying of a license shall be final. If a license is granted, the Federal Reserve bank shall thereupon note upon the duplicate of the application therefor, the date of approval and issuance and the amount of gold specified in such license.

(3) *Reports.*—Within 7 days of the disposition of the gold acquired or held under a license issued under this section, or within 7 days of export, if such exportation is authorized, the licensee shall file a report in duplicate on form TGR-18 with the Federal Reserve bank through which the license was issued. Upon receipt of such report, the Federal Reserve bank shall transmit the original thereof to the Secretary of the Treasury and retain the duplicate for its records.

ARTICLE VI. PURCHASE OF GOLD BY MINTS

SEC. 35. The mints, subject to the conditions specified in these regulations, and the general regulations governing the mints, are authorized to purchase:

(a) Gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof, and which shall not have entered into monetary or industrial use;

(b) Unmelted scrap gold;

(c) Gold imported into the United States after January 30, 1934; and

(d) Such other gold as may be authorized from time to time by rulings of the Secretary of the Treasury; *Provided, however,* That no gold shall be purchased by any mint or assay office under the provisions of this article which, in the opinion of the mint, has been held at any time in noncompliance with the act of March 9, 1933, any Executive orders or orders of the Secretary of the Treasury issued thereunder, or in noncompliance with any regulations prescribed under such orders or licenses issued pursuant thereto or which, in the opinion of the mint, has been acquired and held, transported, melted or treated or held in custody in violation of the Act or of regulations issued thereunder, including these regulations.

SEC. 36. *Deposits.*—Gold in the form of unmelted scrap gold, coins, bars, kings, and buttons will be received in amounts of not less than one troy ounce of fine gold. Gold in the form of retort sponge, lumps, nuggets, grains, and dust, in their native state free from earth and stone, or nearly so, will be received in amounts of not less than two troy ounces of fine gold. Deposits of gold shall not contain less than 200 parts of gold in 1,000 by assay. In the case of gold forwarded to a mint by mail or express, a letter of transmittal shall be sent with each package. When there is a material discrepancy between the actual and invoice weights of a deposit, further action in regard to it will be deferred pending communication with the depositor.

SEC. 37. *Rejection of gold by mint.*—Deposits of gold which do not conform to the requirements of sections 35 or 36, or which otherwise

are unsuitable for mint treatment shall be rejected and returned to the person delivering the same at his risk and expense. Any deposit of gold which has been held at any time in noncompliance with the act of March 9, 1933, any Executive orders or orders of the Secretary of the Treasury issued thereunder, or in noncompliance with any regulations prescribed under such orders or licenses issued pursuant thereto, or in noncompliance with the Act and any regulations issued thereunder, including these regulations, or any licenses issued pursuant thereto or hereto may be held subject to the penalties provided in section 12 hereof, or sections 2 or 3 of said act of March 9, 1933.

SEC. 38. Gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof.—(1) The mints shall not purchase any gold under clause (a) of section 35 unless the deposit of such gold is accompanied by a properly executed affidavit as follows:

An affidavit on form TG-19 shall be filed with each delivery of gold by persons who have recovered such gold by mining or panning in the United States or any place subject to the jurisdiction thereof: *Provided, however,* That such persons delivering gold in the form of nuggets or dust having an aggregate weight of not more than 5 ounces, which they have recovered from mining or panning in the United States or any place subject to the jurisdiction thereof, may accompany such delivery with full and complete information on form TG-19 without the requirement of an oath.

An affidavit on form TG-20 shall be filed with each delivery of gold by persons who have recovered such gold from gold-bearing materials in the regular course of their business of operating a custom mill, smelter, or refinery.

An affidavit on form TG-21 together with a statement also under oath giving (a) the names of the persons from whom gold was purchased; (b) amount and description of each lot of gold purchased; (c) the location of the mine or placer deposit from which each lot was taken; and (d) the period within which such gold was taken from the mine or placer deposit, shall be filed with each such delivery of gold by persons who have purchased such gold directly from the persons who have mined or panned such gold.

In addition such persons shall show that the gold was acquired, held, melted and treated, and transported by them in accordance with a license issued pursuant to section 23 hereof, or that such acquisition, holding, melting and treating, and transportation is permitted under article II without necessity of holding a license.

SEC. 39. Unmelted scrap gold.—No deposit of unmelted scrap gold shall be accepted unless accompanied by a properly executed affidavit on form TG-22. In addition the depositors of such gold shall establish to the satisfaction of the mint that the gold was acquired, held, and transported by them in accordance with a license issued pursuant to these regulations.

SEC. 40. Imported gold.—The mints are authorized to purchase only such gold imported into the United States as has been in customs custody throughout the period in which it shall have been situated within the customs limits of the continental United States, and then only subject to the following provisions:

(1) *Notation upon entry.*—Upon formal entry into the United States of any gold intended for sale to a mint under this article, the importer shall declare to the collector of customs at the port of entry where the gold is formally entered that the gold is entered for such sale. The collector shall make a notation of this declaration upon the entry and forward a copy to the mint designated by the importer.

(2) Upon the deposit of the gold with the mint designated by the importer, the importer shall file an affidavit executed in duplicate on form TG-23.

SEC. 41. Records and reports.—Every person delivering gold in accordance with this article, who is required to be licensed to hold gold, shall keep an exact record of all gold mined, acquired, and all deliveries of gold made by such person as provided in section 26 hereof and shall file with the mint which issued the license the reports required under section 27 hereof. The mints shall not purchase gold under the provisions of this article from any person who has failed to comply with these regulations or the terms of his license.

SEC. 42. Purchase price.—The mints shall pay for all gold purchased by them in accordance with this article \$35.00 (less one fourth of 1 percent) per troy ounce of fine gold, but shall retain from such purchase price an amount equal to all mint charges. This price may be changed by the Secretary of the Treasury without notice other than by notice of such change mailed or telegraphed to the mints.

ARTICLE VII. SALE OF GOLD BY MINTS

SEC. 43. Each mint is authorized to sell gold to persons licensed by it to acquire such gold for use in industry, profession, or art: *Provided, however,* That no mint may sell gold to any person in an amount which, in the opinion of such mint, exceeds the amount actually required by such licensee for a period of 3 months. Prior to the sale of any gold under this article, the mint shall require the purchaser to execute and file in duplicate an affidavit on form TG-24, or, if such purchaser is in the business of furnishing gold for use in industries, professions, and arts, on form TG-25. The mints are authorized to refuse to sell gold in amounts less than 25 ounces,

and shall not sell gold under the provisions of this article to any person who has failed to comply with these regulations or the terms of his license.

SEC. 44. *Sale price.*—The mints shall charge for all gold sold under this article \$35.00 (plus one fourth of 1 percent) per troy ounce of fine gold. This price may be changed by the Secretary of the Treasury without notice other than by notice of such change mailed or telegraphed to the mints.

ARTICLE VIII. TRANSITORY PROVISIONS

SEC. 45. Licenses issued by the United States mints and assay offices on Form TGL-4 and TGL-4A, shall until March 15, 1934, be deemed licenses under section 23 hereof. Such licenses on Form TGL-4 will authorize the licensee until March 15, 1934, to acquire—

(1) gold held under License TGL-4 or TGL-4A or under License TGL-12, TGL-13, or TGL-14 issued pursuant to these regulations;

(2) unmelted scrap gold from persons who acquired and hold such gold lawfully; or

(3) gold bullion from the mint which issued his licenses; and to hold, transport, melt and treat, gold now lawfully held or so acquired in amounts authorized by the license. Such licenses on Form TGL-4A will authorize the licensee until March 15, 1934, to acquire unmelted scrap gold—

(1) held under License TGL-4A or under License TGL-12, issued pursuant to these regulations; or

(2) from persons who acquired and hold unmelted scrap gold lawfully;

and to hold and transport unmelted scrap gold now lawfully held or so acquired in amounts authorized by the license.

SEC. 46. Licenses to hold gold in custody, issued by direction of the Secretary of the Treasury on forms TGL-1 and TGL-2 up to and including March 15, 1934, shall be deemed licenses to hold such gold in custody subject to the conditions prescribed therein, unless sooner terminated by the terms thereof.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

Approved:

FRANKLIN D. ROOSEVELT,
THE WHITE HOUSE.

Articles I, II, III, IV, V, and VIII approved January 30, 1934.
Articles VI and VII approved January 31, 1934.

GOLD RESERVE ACT OF 1934

AN ACT To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Gold Reserve Act of 1934."

SEC. 2. (a) Upon the approval of this Act all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

(b) Section 16 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) The third sentence of the first paragraph is amended to read as follows: "They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank."

(2) So much of the third sentence of the second paragraph as precedes the proviso is amended to read as follows: "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates: ".

(3) The first sentence of the third paragraph is amended to read as follows: "Every Federal Reserve bank shall maintain reserves in gold certificates or lawful money of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual circulation: *Provided, however,* That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(4) The fifth and sixth sentences of the third paragraph are amended to read as follows: "Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall,

upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States."

(5) The fourth, fifth, and sixth paragraphs are amended to read as follows:

"The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than 5 per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the 40 per centum reserve hereinbefore required. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of the notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 18 of this Act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding Federal Reserve notes when offered by the Reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve

notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent."

(6) The eighth paragraph is amended to read as follows:

"All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safe-keeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law."

(7) The sixteenth paragraph is amended to read as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury."

(8) The eighteenth paragraph is amended to read as follows:

"Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits."

SEC. 3. The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the conditions under which gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked: (a) for industrial, professional, and artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this Act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for

foreign or domestic account (except on behalf of the United States) only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations. Such regulations may exempt from the provisions of this section, in whole or in part, gold situated in the Philippine Islands or other places beyond the limits of the continental United States.

SEC. 4. Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody, in violation of this Act or of any regulations issued hereunder, or licenses issued pursuant thereto, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

SEC. 5. No gold shall hereafter be coined, and no gold coin shall hereafter be paid out or delivered by the United States: *Provided, however,* That coinage may continue to be executed by the mints of the United States for foreign countries in accordance with the Act of January 29, 1874 (U.S.C., title 31, sec. 367). All gold coin of the United States shall be withdrawn from circulation, and, together with all other gold owned by the United States, shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treasury may direct.

SEC. 6. Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval of the President, no currency of the United States shall be redeemed in gold: *Provided, however,* That gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States: *And provided further,* That the reserve for United States notes and for Treasury notes of 1890, and the security for gold certificates (including the gold certificates held in the Treasury for credits payable therein) shall be maintained in gold bullion equal to the dollar amounts required by law, and the reserve for Federal Reserve notes shall be maintained in gold certificates, or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act, as heretofore and by this Act amended.

No redemptions in gold shall be made except in gold bullion bearing the stamp of a United States mint or assay office in an amount equivalent at the time of redemption to the currency surrendered for such purpose.

SEC. 7. In the event that the weight of the gold dollar shall at any time be reduced, the resulting increase in value of the gold held by the United States (including the gold held as security for gold certificates and as a reserve for any United States notes and for Treasury notes of 1890) shall be covered into the Treasury as a miscellaneous receipt; and, in the event that the weight of the gold dollar shall at any time be increased, the resulting decrease in value of the gold held as a reserve for any United States notes and for Treasury notes of 1890, and as security for gold certificates shall be compensated by

transfers of gold bullion from the general fund, and there is hereby appropriated an amount sufficient to provide for such transfers and to cover the decrease in value of the gold in the general fund.

SEC. 8. Section 3700 of the Revised Statutes (U.S.C., title 31, sec. 734) is amended to read as follows:

"SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

SEC. 9. Section 3699 of the Revised Statutes (U.S.C., title 31, sec. 733) is amended to read as follows:

"SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however,* That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

SEC. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such funds shall be made and a report thereof submitted to the President.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of \$2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for

stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) All the powers conferred by this section shall expire two years after the date of enactment of this Act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.

SEC. 11. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary may deem necessary or proper to carry out the purposes of this Act.

SEC. 12. Paragraph (b) (2), of section 43, title III, of the Act approved May 12, 1933 (Public, Numbered 10, Seventy-third Congress), is amended by adding two new sentences at the end thereof, reading as follows:

"Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency."

Paragraph (2) of subsection (b) of section 43, title III, of an act entitled "An act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended by adding at the end of said paragraph (2) the following:

"The President, in addition to the authority to provide for the unlimited coinage of silver at the ratio so fixed, under such terms and conditions as he may prescribe, is further authorized to cause to be issued and delivered to the tenderer of silver for coinage, silver certificates in lieu of the standard silver dollars to which the tenderer would be entitled and in an amount in dollars equal to the number of coined standard silver dollars that the tenderer of such silver for coinage would receive in standard silver dollars.

"The President is further authorized to issue silver certificates in such denominations as he may prescribe against any silver bullion, silver, or standard silver dollars in the Treasury not then held for redemption of any outstanding silver certificates, and to coin standard silver dollars or subsidiary currency for the redemption of such silver certificates.

"The President is authorized, in his discretion, to prescribe different terms and conditions and to make different charges, or to collect different seigniorage, for the coinage of silver of foreign production than

for the coinage of silver produced in the United States or its dependencies. The silver certificates herein referred to shall be issued, delivered, and circulated substantially in conformity with the law now governing existing silver certificates, except as may herein be expressly provided to the contrary, and shall have and possess all of the privileges and the legal tender characteristics of existing silver certificates now in the Treasury of the United States, or in circulation.

"The President is authorized, in addition to other powers, to reduce the weight of the standard silver dollar in the same percentage that he reduces the weight of the gold dollar.

"The President is further authorized to reduce and fix the weight of subsidiary coins so as to maintain the parity of such coins with the standard silver dollar and with the gold dollar."

SEC. 13. All actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made or issued by the President of the United States or the Secretary of the Treasury, under the Act of March 9, 1933, or under section 43 or section 45 of title III of the Act of May 12, 1933, are hereby approved, ratified, and confirmed.

SEC. 14. (a) The Second Liberty Bond Act, as amended, is further amended as follows:

(1) By adding at the end of section 1 (U.S.C., title 31, sec. 752; Supp. VII, title 31, sec. 752), a new paragraph as follows:

"Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan."

(2) By inserting in section 8 (U.S.C., title 31, sec. 771), after the words "certificates of indebtedness", a comma and the words "Treasury bills".

(3) By striking out the figures "\$7,500,000,000" where they appear in section 18 (U.S.C., title 31, sec. 753) and inserting in lieu thereof the figures "\$10,000,000,000."

(4) By adding thereto two new sections, as follows:

"SEC. 19. Notwithstanding any other provisions of law, any obligations authorized by this Act may be issued for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills, of the United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe.

"SEC. 20. The Secretary of the Treasury may issue any obligations authorized by this Act and maturing not more than one year from the date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final."

(b) Section 6 of the Victory Liberty Loan Act (U.S.C., title 31, sec. 767; Supp. VII, title 31, secs. 767-767a) is amended by striking out the words "for refunding purposes", together with the preceding comma, at the end of the first sentence of subsection (a).

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates.

SEC. 15. As used in this Act the term "United States" means the Government of the United States; the term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "currency of the United States" means currency which is legal tender in the United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations; and the term "person" means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents. Wherever reference is made in this Act to equivalents as between dollars or currency of the United States and gold, one dollar or one dollar face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by this Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

SEC. 16. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 17. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed.

Approved, January 30. 1934.

The CHAIRMAN. The committee will now proceed with the hearing on the bill S. 2366. Governor Roy A. Young is present; and if it agreeable to him, we will hear him at this time.

STATEMENT OF ROY A. YOUNG, GOVERNOR OF THE FEDERAL RESERVE BANK OF BOSTON, BROOKLINE, MASS.

The CHAIRMAN. Governor Young, will you please state your name and residence, occupation or profession?

Mr. YOUNG. My name is Roy A. Young; residence, Brookline, Mass.; Governor of the Federal Reserve Bank of Boston.

The CHAIRMAN. Governor Young, have you examined the bill S. 2366 and the amendments proposed to it?

Mr. YOUNG. I have read it very hurriedly. I have had no opportunity to consult with counsel about any of the legal phases of it. I

was almost tempted to wire you the other day that I would prefer to come a little later to the committee meeting, but realizing that it was urgent I am here to give you the benefit of any experience I may have had with finance.

Senator BARKLEY. Mr. Chairman, is there any way to connect up this loud-speaker system? If we are going to hold public hearings, we cannot accomplish very much in this large room unless we may have this system in operation, which has been used during the stock-exchange hearings.

Senator BYRNES. That is so, and there are many people present. And the members of the committee at this end of the table cannot hear what is being said without the aid of this amplifying arrangement.

The CHAIRMAN. We have sent for the man who has been operating them during our stock-exchange hearings. The instruments were disconnected at the close of the morning session of the stock-exchange hearings, but we have sent for him, and we understand he will be here in a few minutes. In the meantime we will proceed and do the best we can.

Senator BYRNES. That is all right, Mr. Chairman. I think it would be best to proceed.

The CHAIRMAN. Now, Governor Young, we will be very glad to have your views in regard to this bill. You are familiar with the general subjects covered by it, are you?

Mr. Young. Yes, sir.

The CHAIRMAN. We would like to have you tell the committee what you may have to suggest in connection with the bill, as to whether it is legal or not, as to whether it is practical or not, as to whether it is a wise measure or not, as to whether it is sound or not.

Mr. YOUNG. Mr. Chairman and gentlemen of the committee, since April 18 it has been the policy of the administration to devalue the dollar. The dollar has been devalued. So I am not here to argue about that matter at all. The dollar having been devalued, what are we going to do from here on? It seems to me that this bill will be helpful in stabilizing to a degree our currency.

I read this morning Governor Black's statement made before this committee in executive session. From what I know of the negotiations, and from what I know of the situation, I am in complete agreement with what he has stated to you. And, therefore, in order to avoid repetition, I am not going to attempt to state what he has said so well.

I believe that any profits that come about because of an increase in the value of gold legally at the moment belongs to the Federal Reserve banks. I do not think it necessary for the Federal Reserve banks to retain that profit. As an American citizen I am inclined to agree with practically everybody in the Federal Reserve System that those profits should go to the Treasury. I would have liked to see them go in a legal way, probably with some provision that the Federal Reserve banks might be guaranteed against some possible or unforeseen loss. It seems to me, however, it is a much simpler operation to let it go through a franchise tax rather than what has been set up in the bill, S. 2366. I mean much like what was passed with regard to the Federal Deposit Insurance Corporation.

I think it will be helpful to the general situation to stabilize the dollar somewhere between 50 and 60. I am not an expert in that matter, and whether 60 is the proper figure, or whether 65 should be the figure, is something to be determined by people who know more about this than I do. And it is my hope that it will stop there.

In reading the bill I do not know whether certain sections of it do stop there or not.

There are other sections of the bill that commit us permanently to an irredeemable currency. That I am opposed to. I think those sections ought to be of a temporary nature; I mean with a time limit on them.

There are other sections of the bill that give the Secretary of the Treasury almost unlimited powers. Legally it does not nullify section 14 of the Federal Reserve Act in reference to open-market operations, but it does transfer that function to the Secretary of the Treasury on a permanent basis. And so we may find ourselves in the inconsistent position of the Federal Reserve System, through those open-market operations under section 14, of pursuing one policy, and the Treasury pursuing another.

Now, as I say, Senator Fletcher, I have had to analyze this bill very rapidly. I haven't had the time I wished to have. These are my impulsive views of the bill. And with that statement for the present, I shall now be glad to answer any inquiries that I can answer.

The CHAIRMAN. Governor Young, are there any specific amendments you would like to recommend to the committee?

Mr. YOUNG. It seems to me it is a much easier transaction, and I am informed one in which the constitutionality of the act would not be questioned as much, if the profit or increased value of gold, whichever you want to call it, would go by way of a franchise tax rather than the way it is taken here. That would permit the Federal Reserve banks to retain the gold and still give the Government the profit. And I think it quite essential that the actual gold remain back of the Federal reserves.

Senator CAREY. Do you mean all gold?

Mr. YOUNG. The required gold.

Senator CAREY. Would you pay this to the Treasury in gold or pay it in Federal Reserve notes; I mean the profit?

Mr. YOUNG. Well, by way of a franchise tax I would say that we would retain the gold.

Senator CAREY. You would retain all of the gold?

Mr. YOUNG. Such gold as we have. The Treasury has some gold, and in that way it would solely be made by means of a book entry. Now, that initial transaction would have no effect upon the excess reserves that are in the System at the present time. It would simply be a mark-up on both sides of our ledger, with the profit going to the Government. However, as the Treasury expended those funds for any of the things it is permitted to expend them for under the act, the excess reserves in the Federal Reserve System would increase with the amount of the Treasury's expenditures; meaning that there is the possibility of increasing the excess reserves that are now in the Federal Reserve System, of approximately 900 million dollars, to 4 billion 900 million dollars.

Senator TOWNSEND. That is assuming that it was all spent?

Mr. YOUNG. Yes. I mention that as an extreme possibility.

Senator TOWNSEND. Yes; I see.

Mr. YOUNG. Obviously some of it probably will be spent, and as it is spent it is used to increase the excess reserves of the member banks of the Federal Reserve System.

Senator GOLDSBOROUGH. Governor Young, Chairman Fletcher asked if you had any specific or definite amendments you would like to propose to the bill. I understand that you are now expressing the view that there should be some time limit incorporated in this bill.

Mr. YOUNG. Yes, sir.

Senator BULKLEY. Which sections, if any, would you eliminate from the bill?

Senator GLASS. He referred to the irredeemable currency, I believe.

Senator BARKLEY. Governor Young, your suggestion of a limitation applied, as I understood, to the power of the Secretary of the Treasury to deal in exchanges, which is section 10a, isn't it?

Senator COUZENS. Yes; that is section 10a.

Senator GORE. Someone has suggested that sections 3, 4, 9, and 10 should be limited as to time.

Senator GLASS. Your first suggestion, Governor Young, was as to the permanent character of the irredeemable currency provision of the bill.

Mr. YOUNG. Yes. That is in section 6.

Senator BULKLEY. Are there any other sections that you refer to in that connection?

Mr. YOUNG. Yes; there are others; but it will take a little time for me here to look over them.

Senator GORE. Someone suggested that sections 3, 4, 9, and 10 ought to be limited. How about that, Governor Young?

Mr. YOUNG. Well, section 10—and I am not reading that now—but I know that ought to be limited. I am trying to look through the bill and find out whether section 3 should be limited.

Senator GORE. All right.

Senator TOWNSEND. As to maintaining a reserve of 35 percent against deposits?

Senator GORE. Is this print now on the table the new print?

Senator CAREY. No, Senator Gore; but there has been an amendment offered by Senator Fletcher.

Mr. YOUNG. I should think there should be a limit on section 3, because if you are going to make a limit on section 6, you would have to have a limit on section 3. And section 4 would have to be limited.

Senator BARKLEY. Do you mean as to section 3 there should be a limitation as to time?

Mr. YOUNG. Yes. If you limit section 3 on the irredeemable features of it.

Senator BARKLEY. What is your reason for the suggestion that there ought to be a time limit placed in section 3?

Mr. YOUNG. Well, Senator Barkley, it is assumed that some day we will go back to the free movement of gold. This section would bind it up forever.

Senator BARKLEY. That is, of course, an assumption. It may never develop into a fact, or you don't know about that at least.

Mr. YOUNG. Yes.

Senator BYRNES. Mr. Chairman, may I suggest that inasmuch as Governor Young has stated he has not had an opportunity to study the bill it is hardly proper to ask him to specify amendments to different sections, at least not until he has had time to go over them carefully, and that then the committee might give him an opportunity to present any amendments he wishes to suggest.

The CHAIRMAN. Very well.

Senator BARKLEY. I should like to ask Governor Young this question: He has suggested, independent of any amendments, that this profit could be transferred to the Government without the transfer of the actual gold. I do not know whether this is a fair question or not, Governor Young, but you understand that the primary object of this bill is not to get the profit out of this gold. That is a mere incident. There may never be any profit. There wouldn't be any unless the President issued a proclamation devaluing the dollar. He may do that and he may not do that. If he does not do it there will be no profit. As I understand, the fundamental object of this bill is for the Government to get the actual physical possession of the gold which is the basis of our currency in this country, and then if there is a devaluation later there would grow out of that transaction a profit. But if there is no devaluation there would never be any profit.

Mr. YOUNG. Well, Senator Barkley, I may not be taking the right assumption, but when every action of the administration is toward devaluation; with the embargo of April 18, plus the gold-buying program, plus the terms of this bill, with 2 billions of dollars to purchase certain things, plus the 60-cent limit on it, I have every reason to believe there is going to be a profit in this gold.

Senator BARKLEY. Yes, I think it is reasonable to assume there will be. But the transfer of that profit to the Government from the Federal Reserve banks is not, as I understand it, the primary object of this bill.

Senator CAREY. What is the primary object of the bill, then, Senator Barkley?

Senator BARKLEY. Well, of course, if the only object of this bill is to get two or three billions of dollars' profit out of this gold, it should not be done, as is suggested by Governor Young and others. But, according to my interpretation of the bill and the negotiations that have been described here and in which, of course, I did not participate, the object is to put in the Treasury and under the control of the Government all the monetary gold in this country permanently, to be used and held as a basis for currency. That is what I understand to be the main object of this bill, and the question of profit is incidental.

Mr. YOUNG. Well, then, may I understand if this means a Government central bank and the abolishment of the Federal Reserve System?

Senator BARKLEY. No; I do not understand it is that. And I do not agree, I will say frankly, although probably I am not expert enough on banking and currency to put my opinion against that of

many others, but I do not believe it will result in anything of that kind.

Senator KEAN. If you take away all of the powers of the Federal Reserve System—

Senator GORE (interposing). And the gold, too.

Senator KEAN (continuing). And the gold too, where will the Federal Reserve System stand?

Senator BARKLEY. If I may interpolate in answer to that question, I should like to have Governor Young describe what powers we take away from the Federal Reserve banks. They can still issue currency based upon gold certificates, as they do. They can issue gold certificates now for all the currency they issue, and there is more than 900 million dollars at the present time based upon gold certificates. You happen to have some gold and some gold certificates as a reserve for the issue of currency; but you could issue all the currency out now based upon gold certificates if you wanted to do it. There is no limitation in this bill that prevents you from doing that, should this bill become a law, is there?

Mr. YOUNG. That is true.

Senator GLASS. Isn't it true that those gold certificates practically amount to gold inasmuch as they are redeemable in gold?

Mr. YOUNG. That is right.

Senator GLASS. And when you transfer to the Federal Reserve banks certificates that are meaningless and that are not redeemable in gold, it has no gold, has it?

Senator BARKLEY. They are redeemable in gold so far as may be necessary for the Federal Reserve System to engage in international transactions or to preserve the parity of the currency.

Senator GLASS. But the parity of the currency is preserved on an irredeemable basis.

Senator GOLDSBOROUGH. Governor Young, how about the primary objects of the bill? I direct your attention to section 10 a, in which there is set up the sum of 2 billions of dollars to be recovered into the Treasury for the very purpose of stabilizing foreign exchange. Isn't that correct?

Senator BARKLEY. Of course.

Senator GOLDSBOROUGH. And that is set up out of the profit of taking over the gold?

Mr. YOUNG. As I understand this 2 billion of dollars, it is not only money to stabilize the exchange, but there is no limit on what the Secretary of the Treasury can do with that money.

Senator GLASS. Well, there wasn't in the bill as originally introduced, but section 10 a has been rewritten.

Mr. YOUNG. Well, I notice there is a change in that, Senator Glass. But it reads this way:

To deal in gold and foreign exchange, and such other instruments of credit or security as he may deem necessary to carry out the purpose of this section.

Senator BARKLEY. That is, to stabilize the exchange value of the dollar.

The CHAIRMAN. Yes; the purpose is stated as being with the view of stabilizing the exchange value of the dollar.

Mr. YOUNG. Well, the words "and such other instruments of credit", it seems to me gives him unlimited authority to deal in

almost anything. Further down, in section (b) he can support the Government bond market and use the funds for that purpose.

Senator GLASS. And that is what he is going to do, of course, under the bill.

Senator KEAN. Now, Governor Young, I repeat my question: If you take away from the Federal Reserve banks the gold, and if you take away the powers that are included in this bill and the amendments thereto, what is there left of the Federal Reserve banks?

Mr. YOUNG. Well, that is just exactly the inquiry I made. I think the Federal Reserve banks are centered on pretty much a machine, and that is why I suggested that this be not a permanent law, that there be some time limit on it. I have been with the Federal Reserve System for 17 years and have seen it under many conditions, and I still believe that the regional system is better than a central system, with all its cumbersomeness. With cumbersomeness I am satisfied it has on many occasions excluded the possibility of hasty action on monetary policies. Frankly, gentlemen of the committee, I do not want to see the Federal Reserve System abolished. I want to see it continued, not as a mechanical set-up but as fairly representative of the business and industrial institutions of the country.

Senator BARKLEY. What is there that the Federal Reserve banks can do now that they could not do if this bill were enacted into law?

Mr. YOUNG. We can operate in the open market. This bill gives the Secretary of the Treasury such powers, of a permanent nature, that he could nullify anything we could do.

Senator BARKLEY. The Secretary of the Treasury under this bill could only engage in operations in the open market for the purpose of stabilizing the exchange value of the dollar, which it seems to me is an infinitesimal amount of open-market transactions as compared to domestic operations in all kinds of securities that the banks can now engage in.

Mr. YOUNG. There is very broad language in this bill, and certainly the Secretary of the Treasury could purchase Government bonds to stabilize the Government bond market, and I think there can be no question about that.

Senator BARKLEY. I agree to that.

Senator BYRNES. Would it be conceivable if the Treasury wanted to stabilize the bond market at some time, that the Federal Reserve banks would want to go into the bond market to prevent a stabilization of the bond market?

Mr. YOUNG. That is possible.

Senator BYRNES. If that be true, don't you think that somewhere the Government should have the power and the opportunity to protect its own securities; I mean in event the Federal Reserve banks should determine to attack those securities?

Mr. YOUNG. That is why you have two different set-ups in this bill, one in the Treasury and one in the Federal Reserve banks.

Senator BYRNES. That is right. But if there is to be a conflict of interest, shouldn't the Government have the power and the opportunity to protect itself? If, as you assume the time may arise when there would be a conflict, when the banks might want to deflate and the Government of the United States might not want to deflate,

should the Federal Reserve banks alone have the weapon with which to act?

Mr. YOUNG. It has that power now under the Banking Act of—

Senator BYRNES (interposing). And suppose it would not want to surrender it?

Mr. YOUNG. Under the Banking Act of 1933 it has that power, and in my opinion it always has had that power through the Federal Reserve Board, which is a branch of the Government. Now it is a question whether you are going to transfer this power from the Federal Reserve Board to the Treasury Department.

Senator BYRNES. If it is a branch of the Government, then ordinarily it would be in accord with the policies of the Government. But you have assumed that there might be a conflict between the Treasury and the Federal Reserve Board.

Mr. YOUNG. That is right.

Senator BYRNES. If that conflict should arise, don't you think the Treasury should have the power and the weapon with which to protect itself as against privately owned banks?

Mr. YOUNG. As an emergency measure that may be so, but as a permanent thing I say certainly not.

Senator BYRNES. Then if it may be used in an emergency, why not permanently?

Mr. YOUNG. Then the whole theory of the Federal Reserve Act is wrong.

Senator BYRNES. Just because you think it is wrong, but for no other reason?

Senator GLASS. Let me ask you a question. Was the Federal Reserve System set up to protect the Treasury?

Mr. YOUNG. I do not think so, Senator.

Senator GLASS. Was it set up to be used as a football by the Treasury?

Mr. YOUNG. I do not think so.

Senator BARKLEY. Was it set up to be used to drive down the market price of Government securities?

Senator GLASS. No; and it has never done that.

Senator BARKLEY. Assuming that.

Senator GLASS. We may assume what the Secretary of the Treasury will do from what the Secretary of the Treasury has done. I call every member of the Banking and Currency Committee here present to witness the accuracy of this statement—certainly those members of the subcommittee that prepared the Banking Act of 1933. When we made an assessment on the member banks of a quarter of a cent we provided that one half of that assessment was to be called within 90 days, and the other half of the assessment was to be subject to call, but it was the universal opinion of every member of the committee that it was more than likely that that second assessment would never be called, and we appeased the protest of member banks throughout the country against that assessment by saying to them that we did not contemplate that it would ever be called.

My information is that it has already been called, and that the call has been used, not to pay any depositor in a failed bank, but has been used to stabilize the bond market of the United States, which I conceive to be a perversion of the intent of the law. If it is done

so soon now with the fund provided for the insurance of deposits in banks, there is no telling what will be done.

Senator BARKLEY. Does not the act authorize the deposit corporation to use this fund, or such other fund as it may have, for investment in suitable securities?

Senator GLASS. Undoubtedly.

Senator BARKLEY. So that there is no unlawful use of the money.

Senator GLASS. No; there is no unlawful use of it. There is a perverted use of it, against the intent of the law.

Senator KEAN. Mr. Young, is it not true that in times past the Secretary of the Treasury has had one idea of keeping the market going, and encouraging people to speculate, if you chose to use that term—

Senator GLASS. Why don't you say "gamble" and be done with it?

Senator KEAN (continuing). And the Federal Reserve has had another idea of trying to stabilize business, and therefore, perhaps, they would be in favor of selling some of the United States bonds that they hold, as against the Treasury trying to boom them up. That has happened before, has it not?

Mr. YOUNG. In my experience, Senator, in operations in the Government bond market—this is my best recollection—the Federal Reserve System and the Treasury were in agreement as to what was done. There may be some exceptions to that, but very few.

Senator BYRNES. You would not mean to say, in response to that, that you would expect that just because a man is a member of the Federal Reserve Board he will necessarily be superior in patriotism to the official who happened to be appointed by the President of the United States as Secretary of the Treasury under any given circumstances? The Senator asked whether, if the Treasury goes to encouraging gambling, it could be stopped only by the Federal Reserve Board. Do you believe it necessarily follows that if a man is Secretary of the Treasury he would want to do that, to encourage speculation?

Mr. YOUNG. Not at all, Senator; but let us look at the mechanics of this, and look at the act of 1933, which is the result of what developed in actual practice in reference to open-market operations. There are 108 directors of the Federal Reserve banks. There are 12 Governors. There are 8 members of the Federal Reserve Board, and open-market operations under the law today require the majority approval of all of them. I say that is far better than depending on any one man.

Senator BYRNES. But they are responsible to their member banks, and the Secretary of the Treasury is appointed by the President, who is responsible to 130,000,000 people. Would you not expect just about such desire to do that which was best for the interest of the country from him, or is all virtue in those who happen to be, from time to time, appointed to the Federal Reserve Board?

Mr. YOUNG. No; I do not think so.

Senator ADAMS. Mr. Young, was the Federal Reserve Board, or the majority of the Governors, entirely in accord with the policy of the Secretary of the Treasury during the past 4 years in reference to market operations and the encouragement or discouragement of speculation?

Mr. YOUNG. Yes; I am going to say that the majority was. It must have been.

Senator ADAMS. So, they share the responsibility for some of the things that happened to us?

Mr. YOUNG. Yes, sir.

The CHAIRMAN. Are there any other questions?

Senator BARKLEY. If this bill should be enacted, the Federal Reserve banks can go ahead, just as they have always done, in the re-discount of paper, and furnishing credit to the member banks throughout the country. This does not in any way interfere with that.

Mr. YOUNG. Not at all.

Senator BARKLEY. They can go ahead and issue Federal Reserve notes and Federal Reserve bank notes, just as they do now?

Mr. YOUNG. That is right.

Senator BARKLEY. To the same extent they do now?

Mr. YOUNG. Yes, sir.

Senator BARKLEY. So that, so far the only way in which you feel that this bill may interfere with the Federal Reserve bank is that the Secretary of the Treasury might in some way impinge upon the right of the Federal Reserve banks to deal in open-market transactions in securities?

Mr. YOUNG. Yes. There may be other things.

Senator GLASS. Governor, let us be brutally frank about this matter. Is it not a fact that the Secretary of the Treasury for the last 12 years has practically dominated the policy of the Federal Reserve banks and Board with respect to the purchase of United States bonds?

Mr. YOUNG. No, sir.

Senator GLASS. I think he has.

Mr. YOUNG. Well, I do not like to disagree with you, Senator, but I was on the Board for 3 years, and I know that there was a difference of opinion between the Treasury and the Board repeatedly.

Senator GLASS. But the Treasury always predominated.

Mr. YOUNG. No, sir.

Senator GLASS. How did you manage to load the Federal Reserve banks up with $2\frac{1}{2}$ billions of United States bonds otherwise?

Mr. YOUNG. It was done by a voluntary action of all the Reserve banks in an open-market meeting, considered by all the Governors, some of whom voted for and some of whom voted against. The majority were for it. It went to the Federal Reserve Board. The Federal Reserve Board approved or disapproved it by a majority vote.

Senator GLASS. What was the attitude of the Secretary of the Treasury?

Mr. YOUNG. In all those purchases?

Senator GLASS. Yes. If you cannot tell me, I can tell you.

Mr. YOUNG. I cannot tell you.

Senator GLASS. He was in favor of it always.

Senator BARKLEY. How many votes did he have?

Mr. YOUNG. He has one vote. [Laughter.]

Senator KEAN. Mr. Young, the stockholders of the Federal Reserve bank are the banks, are they not?

Mr. YOUNG. That is right.

Senator KEAN. The gold in the Federal Reserve banks at the present time belongs to the stockholders, does it not? That is, at all events, the surplus gold above the 40 percent?

Mr. YOUNG. I am not an attorney, but I will assume for the moment that it does belong to the Reserve banks, and, in turn, to the stockholders.

Senator KEAN. If I deposit \$100 in a member bank, at least \$10 of that has to go to the Federal Reserve as a deposit, does it not?

Mr. YOUNG. I did not catch that question.

Senator KEAN. If I deposit \$100 in a national bank, \$10 of that has to go to the Federal Reserve bank, does it not?

Mr. YOUNG. It depends upon what kind of a deposit you make. If it is a time deposit, only \$3 will go.

Senator KEAN. I am talking about a regular drawing account.

Mr. YOUNG. The average is about 7 percent.

Senator KEAN. Is it not 10 percent of the deposit?

Mr. YOUNG. No. The law requires 3 reserves or, rather, 4 reserves: 3 percent against time deposits, 7 percent if in a city outside a Reserve city—

Senator KEAN. Yes.

Mr. YOUNG. And 10 percent in a Reserve city, and 13 percent in the central Reserve city. There are four different Reserves.

Senator KEAN. So that if I deposit a drawing account in a bank, you get about \$10 of it, do you not, if I deposit \$100?

Mr. YOUNG. It works out about 7 percent.

Senator KEAN. You are talking about time deposits.

Mr. YOUNG. Let us go ahead with \$10.

Senator KEAN. All right. What I am talking about is this: That gold that is above the amount of paper that you have issued belongs to those depositors and stockholders, does it not?

Mr. YOUNG. I cannot answer that, Senator. It belongs to the bank—and I mean the Federal Reserve bank. The provisions under the law are that if the Federal Reserve bank is dissolved all of that profit over the liabilities goes to the Treasury.

Senator GLASS. Yes; that is a good way to get the gold, is it not?

Mr. YOUNG. Yes.

Senator KEAN. That is the profit, under the old law.

Senator GLASS. Oh, no. Whenever a Federal Reserve bank goes into liquidation or is abolished by the Government, all of its property goes to the Government.

Senator KEAN. Yes.

Senator GLASS. And that is an honest way of getting possession of it, if you want to abolish the Federal Reserve bank.

Senator KEAN. That is true.

Senator COUZENS. Let us do it.

Senator GLASS. I know you are in favor of doing it, and I am not.

Senator KEAN. What I am trying to get at is this, that if the Federal Reserve bank has bad paper, or anything of that kind, they are taking away the assets that belong to the people. That is what I am getting at.

The CHAIRMAN. We have the opinion of the Attorney General on that subject, Senator.

Senator KEAN. I know.

The CHAIRMAN. I do not know whether Governor Young wants to express any opinion on the legal phases.

Senator KEAN. That is correct, is it not?

Mr. YOUNG. Senator, I cannot answer.

Senator KEAN. The next question I want to ask you is this: This bill proposes to stabilize the currency at between 50 and 60. To your knowledge, and to mine, the United States Government has done everything in its power to depress the value of the dollar in the last 6 months, has it not?

Mr. YOUNG. I am not going to say "everything."

Senator KEAN. What have they left undone?

Mr. YOUNG. It has been the policy to devalue the dollar.

Senator COUZENS. They have not issued paper money.

Senator GLASS. This bill does not propose to stabilize the dollar at all between 50 and 60.

Senator KEAN. It authorizes it.

Senator GLASS. No; it does not.

The CHAIRMAN. We will talk about the bill later. Let us get the facts. What is it you want?

Senator KEAN. I want to find out whether, in his opinion, the dollar ought not to be stabilized at 65 to 70, because there is bound to be a reaction from the continual depression, a rebound.

Mr. YOUNG. That is an extremely technical question and can only be answered by a man who is in daily contact with those transactions. My impulsive reaction to the figure 60 was this: Let us assume that you do stabilize at 60 or 50. It appears to me that it can only be done after some agreement with England, France, and probably other nations; and if you put a limit of 60 on it, it seems to me it ties your hands somewhat.

Senator KEAN. Yes; it does.

Mr. YOUNG. I cannot say whether 60 or 65 is proper. Of course, we have to take into consideration what France and England may do. I do not know what they are going to do.

Senator GOLDSBOROUGH. Governor, the statutory price of gold is fixed at \$20.67. The world price has run from \$30 to \$31, \$32, and \$34. It is reported that the Reconstruction Finance Corporation has bought many millions of gold abroad. If it is taken over by the Treasury, is there to be a loss; and, if so, who sustains the loss?

Senator COUZENS. There is no loss.

Mr. YOUNG. Indirectly, I suspect, the Treasury. While we have no right to talk about this, Senator, the Treasury supplied the capital for the Reconstruction Finance Corporation, and any losses of the Reconstruction Finance Corporation that are in excess of the earnings obviously have to be taken out of that capital, so it is a loss to the Treasury. It seems to me I saw some statement today somewhere that the Treasury contemplated taking over the gold that the Reconstruction Finance Corporation now has at the price they paid for it.

Senator BARKLEY. As a matter of fact, Federal Reserve banks have not in any instance paid more than \$20.67 for any of the gold they now possess; is that not true?

Mr. YOUNG. I think that is correct.

Senator BARKLEY. So that there will be no loss.

Senator GLASS. No; the Federal Reserve banks have not bought any foreign gold, except as the agent of the Treasury.

Senator BARKLEY. That is true. They now own no gold in foreign countries. They have not bought any or acquired any in any way, for which they paid more than \$20.67.

Mr. YOUNG. We do not own any gold now that I know of.

The CHAIRMAN. Are there any other questions?

Senator WAGNER. I was going to suggest that, while there might be a bookkeeping loss in the purchase of this gold in foreign markets, there are two ways, however, that that may be transferred into a gain: Namely, if the market goes up for world gold, you could sell it again at a higher price; and, secondly, if that is used, if you bring down the value of the dollar in international exchange, we might benefit greatly by the sale of our goods in foreign markets. In that way that small loss might result in tremendous gain in international trade.

Senator GOLDSBOROUGH. And if it is taken up on the books of the Treasury upon the adoption of this bill, assuming it should be adopted, there would be strong likelihood of loss, because the statutory price is fixed at \$20.67, which is considerably below the world market price.

Mr. YOUNG. That is right.

Senator BARKLEY. There would not be a loss. There would be just a failure to acquire a profit.

The CHAIRMAN. There is not a great deal of it anyway.

Senator COUZENS. Who is the next witness we are going to have, Mr. Chairman?

The CHAIRMAN. Governor, will you please submit any amendments you would like to suggest? You can send those in later, if you will. That is all, Governor.

Mr. YOUNG. I want to thank you gentlemen for your courtesy.

The CHAIRMAN. We are very much obliged to you for coming down.

Mr. YOUNG. I am sorry I was not better prepared.

The CHAIRMAN. Is Dr. Anderson here? Senator Gore, have you heard from Dr. Anderson?

Senator GORE. He expected to be called about 4 o'clock. That was the understanding when he left yesterday to go up to Trenton.

The CHAIRMAN. Former Senator Owen is here. He was chairman of this committee for a number of years, and has studied these questions for years, and is well posted on them. We will hear from him now his views with respect to this bill.

STATEMENT OF HON. ROBERT L. OWEN, FORMERLY A UNITED STATES SENATOR FROM THE STATE OF OKLAHOMA

The CHAIRMAN. Senator, have you seen the bill, S. 2366?

Mr. OWEN. Mr. Chairman, when I received your telegram yesterday inviting me to come down from New York to appear before the committee, I came in last night and this morning I had the opportunity of reading the bill. I had general knowledge of its contents before. I also saw the opinion of Attorney General Cummings with regard to it.

I think I understand the purpose of the bill, which is that the Government of the United States should take over the physical possession and ownership of all the gold in the United States, and that that gold subsequently may be devalued by the President of the United States under the Thomas amendment, not lower than 50 and not above 60.

I approve the purpose of the bill. My opinion—and I say that with reservations, because I do not wish to expand upon the value of my own opinion over that of anybody else—is that the Government of the United States, under the Constitution of the United States, article I, section 8, clause 5, is exclusively charged with the duty of issuing money in the United States and regulating the value of it. I do not think that that power ought to be delegated to anybody else. I have never approved the bond-secured issue of currency, and I thought, when the Federal Reserve did it, it would result in the gradual retirement of those bond-secured notes, and the substitution of United States Treasury notes loaned to the Reserve System under the provisions of the Federal Reserve Act.

In recent times, because of the exigencies, there has been quite an expansion of the bond-secured notes, and of the Federal Reserve bank notes, which are also bond secured, but I wish to say this, that having read the opinion of Mr. Cummings, I am firmly convinced that his views upon that matter are right, and that there may be some other considerations which he does not refer to, that support that view.

That is to say, these Federal Reserve banks, when they were organized, were not organized for the purpose of profit making. They were intended to stabilize the credit and the currency supply of the country, so that our business men, our manufacturers, and our merchants would be assured of stability of credit and stability in purchasing power of money.

That end has not been accomplished as the country hoped for. Indeed, there has been the most remarkable variation in the purchasing power of money, which this committee ought not to lose sight of for one moment in considering these questions.

In 1913, taking the 1926 commodity and dollar purchasing power index as the basis, the purchasing power of the dollar was \$1.45, with the commodity index at an inverse ratio.

When the war came on and there was an expansion of credit for the purpose of carrying on the war, the dollar index went down to 60, and the commodity index went up to \$1.66. That was obviously due to an expansion of credit and of currency. Under the contraction which took place in 1921, and the subsequent contraction which took place in 1929–33 of credit and currency—but particularly credit, because the currency has not been diminished, except by the hoarding of the people—that dollar went to \$1.66, in terms of commodities, in February 1933, and the commodity index went to 60; in other words, just the reverse of what it was in May 1920. In other words, the American dollar expanded in its purchasing power 277 percent, and the debts which were incurred during the war had to be paid in dollars that were 276 percent more valuable than they were when the debts were incurred, and the interest accordingly.

It therefore should be obvious to thoughtful men that stability in the purchasing power of money is the great objective to be obtained. This bill contemplates a means of accomplishing that end. It does not finally effectuate it, but it does have a tendency to effectuate it, and stabilize the purchasing power of money in the manner proposed by the bill.

I think, therefore, that the bill is thoroughly constitutional. I think the bill is altogether commendable as a means of accomplishing this end.

I want to say to the honorable committee that in my opinion the purchasing power of the money depends upon the available supply of money in relation to the demand for money; and when I say "money" I do not mean paper money issued by the Government, or, much less, the small coins we use in daily transactions of petty business; nor do I confine that to bank checks, colossal as they are, and were.

I recognize that the potential supply of money depends also largely upon the value of stocks and bonds which are capable of being converted into bank credit over 24 hours on the open-market exchanges.

The volume of those securities from 1929 to date, or to the peak of the depression, suffered a loss estimated by many economists whose opinions are worthy of consideration, at about \$100,000,000,000, which meant a loss of potential supply of money or credit of \$100,000,000,000.

Since October 1929 there has been a shrinkage in the loans of the banks of approximately 20 billion dollars. There has been a shrinkage in the deposits available for checks of 18 billion dollars, approximately. The supply of dollars, therefore, potential and actual, has gone through an enormous shrinkage, and the supply of dollars going through that shrinkage has affected the value of all other forms of property—least of all, commodities.

Then come bonds, and then come the highest class of stocks, and then medium-priced stocks. The dollar, at the lower point, would buy from 300 to 1,000 percent of stocks regarded with great favor before the collapse took place. In terms of real estate—particularly country real estate—there is no market. The dollar will buy anything that may happen under conditions of forced sale. For that reason many of the States have demanded a moratorium on mortgages.

In 1929 the actual turnover of money by check is estimated by Mr. Goldenweiser, of the Federal Reserve, at 1,200 billions. Now it is less than 500 billions. There has been a shrinkage in the volume of money turning over per annum of something over 700 billion, and that accounts for the terrible shrinkage in stock-market values, for example. First, those stocks were overestimated before the collapse, and then were underestimated afterwards, but now, under this bill, you have an opportunity of advancing the stability of the purchasing power of money, and for that reason I particularly think well of this bill.

I think the Government is entitled to all the gold in this country for the purpose of giving psychological security to the currency issued by the country. Practically all the nations of the world have

gone out of the use of gold as a pocket money. It is no longer being used in that way. Since the World War they have learned to economize in gold by putting it in gold bars, and this country naturally follows that wise example. In that way the gold is not used as pocket money, and it diminishes the demand for gold. By increasing the value of gold by diminishing the gold content of the dollar, it further makes available a gold supply that will serve the psychological purpose of satisfying the public mind that the money of the United States is secured by gold and that we are not inflating our money by diminishing its value through merely printing additional notes.

I have never been in favor of inflation at any time. I have always desired stabilization, and I thought that the Federal Reserve System would accomplish that result, and have been deeply disappointed that it did not serve that purpose adequately.

I do not think it is advisable to charge anybody with the fault of these panics or depressions, because there was nobody who had the vision to foresee just what the result would be, and the thing which took place took place in the course of human nature—men speculating on the exchanges. This last depression obviously was brought on by a tremendous expansion of brokers' loans which came about in the marketing of over one billion shares of new stock certificates for the purpose of strengthening the cash reserves of our great industrial institutions, and in that process these brokers' loans gradually expanded, and in the expansion there was created a very large volume of deposits which were subject to check, and because they were subject to check, it meant that the volume of check money was inflated, for the purpose of operating on the stock exchanges.

When that inflation took place it caused these stocks to rise above the value which they could adequately earn on the investment in the purchase of the stock, and when the public mind became perfectly assured of that, and the wise advice of many sound bankers became more apparently right, that the market was developing a value in securities far beyond what was reasonable and fair, there finally came the time, on October 23, when a collapse took place, and an avalanche of such stocks was thrown on the market between October 23 and December 1, and there was a withdrawal of the brokers' loans of 6 billions altogether, with a shrinkage in market value of the stocks and bonds of 30 billions distributed among 20 million shareholders, and a wave of pessimism swept this country. If by this act you can prevent the recurrence of that, I regard this act as of colossal importance, and I am glad to have the opportunity of expressing that opinion roughly with regard to it.

The CHAIRMAN. Senator, will you give us your view as to the time limit that has been suggested here in certain sections of the bill? Is there any need for that?

Mr. OWEN. I think not only is there no need for it, but I think it would be a deplorable thing to say that the Government of the United States should be limited by time in protecting the adequate security of its own money and stabilization of its own money.

The United States is responsible to the people of the United States for the stability of the money. You gentlemen are charged

with the duty of devising statutes and the mechanism by which that can be accomplished.

If there is a conflict between the interest of the Government of the United States and the Federal Reserve bank, or a difference of opinion, I think the difference of opinion ought to be resolved in favor of the United States. I think the United States is the proper power to regulate the value of the money, and not the Federal Reserve banks, because, after all—and speaking most respectfully of the Federal Reserve banks, because they are conducted by men of the highest character—they get their view, and they have an atmosphere around them. They are chosen by the big banks, through discreet little campaigns, and they naturally follow the ideals which are portrayed to them as the soundest from a financial point of view.

Senator ADAMS. Senator, may I ask you a question?

Mr. OWEN. I would be glad to have you do so.

Senator ADAMS. You said you regarded it as one of the fundamental functions of the Government to maintain the stability of its currency.

Mr. OWEN. Absolutely. That is my opinion.

Senator ADAMS. I am wondering whether or not a reserve is one of the essentials of that, and to what extent redeemability is an essential to a sound currency.

Mr. OWEN. I think the question of redeemability in terms of gold has no particular value whatever. What citizen wants gold in his pocket, when he has a legal tender money with which to pay his debts? He does not want gold. If he wants it for industrial purposes, to make earrings of, he can get it. If he wants it to pay an international trade balance, he will have no difficulty about getting it, and that is the only remaining function of gold. It is to furnish the industrial arts and sciences, and to liquidate international balances that are otherwise not conveniently settled.

Senator ADAMS. How would you draw the phraseology of currency of that kind, which was not redeemable in any form of property?

Mr. OWEN. Keeping it at a parity with gold is sufficient.

Senator ADAMS. Would you provide any agreement—

Mr. OWEN. If it is kept at parity with gold, the United States would have 7,000 tons of gold, and very few persons would want more than a little of it at a time.

Senator ADAMS. I am inquiring for information. Of what service is gold if it is not available at any time or in any way to the holder of currency?

Mr. OWEN. When you ask what service, I answer that the service of legal-tender money is the only service that the citizen has any reason for outside of the industrial arts and paying international balances, and that is provided for in this measure.

The CHAIRMAN. What is your view about leaving this gold in the Federal Reserve banks? Do you think that is important?

Mr. OWEN. I think that the ownership of the gold should be in the United States, but I do not think its deposit makes any difference. I think it is quite all right to leave the physical gold in the Reserve banks. I regard them as perfectly safe.

The CHAIRMAN. You mean store it with them?

Mr. OWEN. Yes.

The CHAIRMAN. But have the title vested in the Government?

Mr. OWEN. Certainly.

Senator GLASS. Has that always been your view, Senator?

Mr. OWEN. Well, it is my view now, and that is sufficient.

Senator GLASS. No. I want to put into the record the view that you once held.

Mr. OWEN. I would be glad to have you do so.

Senator GLASS. In contradistinction to the view that you hold now.

Mr. OWEN. I would be glad to have you do that. I shall be glad to answer it.

Senator GLASS. You may answer yourself. You cannot answer me.

Mr. OWEN. I said to answer the quotation you are going to make.

Senator GLASS. You and I had the distinction of appearing before a large audience in New York in November 1913 to defend the Federal Reserve Act against the assault of Mr. Frank A. Vanderlip and some other gentleman whose name I have forgotten. Mr. Vanderlip will never let us forget him. On that occasion you reminded the audience that the Government undertook to maintain the parity of all moneys with gold.

Mr. OWEN. That was a statute.

Senator GLASS. Now, I quote in order to show that you highly commended the statute.

Mr. OWEN. I commend it yet.

Senator GLASS (reading):

If the Government must maintain the parity of all money emitted in the United States under the law, and that law has been so far prized that it was insisted that it should be redeclared in this very act, and it is in the act as a new declaration, pledging the act of 1900 as the law of the land, why demand that these notes should be the notes of these banks and not the notes of the United States, although the United States—

And I particularly would like you to note this (continuing reading):

Although the United States is compelled to keep them on a par with gold. The Government of the United States—

And I particularly invite your attention to this—

Mr. OWEN. Are you quoting or commenting?

Senator GLASS. I am quoting from your speech. I say, I particularly invite your attention to this phrase of your speech.

Mr. OWEN. Yes.

Senator GLASS (reading):

The Government of the United States is compelled to redeem these notes in gold. The citizen who receives one of these notes, from the Atlantic to the Pacific, must be satisfied, without examination, that these notes are as good as gold. He must not stop to examine into the validity of the bank which emits them any more than he will stop to examine a national-bank note to see whether a national bank is safe and sound. A national bank can go out of existence. A national bank can be proved worthless. A national bank can sign its note, or not sign its note. The signatures of the officers of the bank may be forged to the note, and yet its notes are as good as gold, and are kept on a parity with gold by the laws of the United States.

I thought that was pretty sound doctrine.

Mr. OWEN. I think so now. I approve it. It was excellently well said. [Laughter.] I thank you for having brought it to the attention of the committee, Senator.

Senator GLASS. Yes. I want it to go into the record.

Mr. OWEN. I am glad to have it in the record, and I now make this comment upon it, that we have since that time had the wisdom to do what was denied to me at that time, I believe, with your opposition, and that is to make all notes legal tender. Did you not disapprove that at that time?

Senator GLASS. Oh, no.

Mr. OWEN. I beg your pardon.

Senator GLASS. I did oppose the improvident proposition to make Federal Reserve notes usable for reserves in banks.

Mr. OWEN. Since that time we have made all our money legal tender, with my cordial approval and sympathy. I was glad to see it done. That, therefore, makes gold absolutely unnecessary as money in the pockets of the people, because they have a legal tender with which to pay their debts, pay their interest, and carry on the business of the country. I think that is a sound way. I think that there ought to be only one form of money, issued alone by the Government of the United States, and the Government should have in its hand a sufficient amount of gold—and silver, too—to furnish anybody with gold and silver who wants it for legitimate purposes, without permitting them to conspire against the stability of our currency by artificial contraction.

Senator GLASS. Does the Executive order permit anybody who has gold now to hold it? Anybody who has gold now is characterized, under the Executive order, as a felon and may be fined and put in jail.

Mr. OWEN. For that very reason the gold which has been taken away from the citizen can pass alone to the Government of the United States, and cannot pass to private corporations for the benefit of anybody else. It must go to the Government of the United States.

Senator GLASS. Nobody can get any gold from the Government of the United States or from any bank at all.

Mr. OWEN. Quite right.

Senator BARKLEY. This bill provides that they may get it for industrial purposes and for the arts.

Mr. OWEN. They can get it for every reasonable purpose, and they cannot get it for the purpose of hoarding the gold and interfering with the stability of our currency. I think that is absolutely sound, 100 percent.

Senator GLASS. Nobody has very much gold or anything else to hoard.

Mr. OWEN. I think it takes omniscience to know that.

Senator GLASS. We have conferred omniscience, in this bill, on the Secretary of the Treasury.

Mr. OWEN. I would rather he would have it than the bankers of New York.

The CHAIRMAN. Are there any other questions, gentlemen?

Senator GLASS. It is altogether a question of opinion.

Senator STEIWER. Just one question, Mr. Chairman. I understood you a little while ago in the early part of your testimony to refer to the constitutional provisions.

Mr. OWEN. Yes.

Senator STEIWER. As conferring upon the United States Government the right to coin money.

Mr. OWEN. Yes.

Senator STEIWER. And fix its value. And then, if I understood you, you said in effect that you are opposed to the delegation of that authority.

Mr. OWEN. Yes.

Senator STEIWER. Did I understand you correctly?

Mr. OWEN. Yes.

Senator STEIWER. If the Constitution in fact rests the authority to coin money and to fix its value upon Congress, would you still be opposed to the delegation by Congress of authority with respect to the fixing of the value of money?

Mr. OWEN. I favor Congress having the power to fix and regulate the value. I think that is the constitutional purpose.

Senator STEIWER. That does not categorically answer my question, but assuming that the Constitution does confer that authority upon Congress—

Mr. OWEN. Yes.

Senator STEIWER. Do you oppose the delegation by Congress of its power?

Mr. OWEN. I think it better practice to have the Government issue its own money directly than to delegate it to be issued against its own bonds.

Senator KEAN. There is no delegation in issuing money.

Mr. OWEN. No.

Senator KEAN. That is only paper; that is not money.

Mr. OWEN. Well, you can call it paper if you like, but it is legal tender now.

Senator KEAN. It may be legal tender, but it is not money. It is not sound money.

Mr. OWEN. It is just as good as gold now.

Senator GLASS. Right on that point, Senator, let us get our dates correct so there will be no confusion. I understand that you now answer your speech of 1913.

Mr. OWEN. No; I do not answer it. I comment on it as being perfectly sound then and perfectly sound now. I do not answer it.

Senator GLASS. Well, you say you have changed your mind.

Mr. OWEN. No, no; I did not change my mind. I said I had a right to change my mind, but I have not changed my mind.

Senator GLASS. Do you say that since you made that speech all issues have been made legal tender?

Mr. OWEN. Yes; I say that.

Senator GLASS. Well, I just want to get those dates right. You made your speech in 1913, and all outstanding currency was made legal tender March 14, 1900, 13 years before.

Mr. OWEN. You are very much mistaken.

Senator GLASS. I don't think so.

Mr. OWEN. The national-bank notes were not legal tender. The Federal Reserve notes were not legal tender. The Federal Reserve bank notes were not legal tender. And that comprises the larger part of our currency. There was only a small part of our currency legal tender, and that was greenbacks and gold and silver certificates.

Senator GLASS. Greenbacks were made legal tender long ago.

Mr. OWEN. Well, you hardly need to tell me that.

Senator GLASS. I didn't know.

Mr. OWEN. I thank you for the compliment.

Senator BYRNES. Mr. Chairman, I have no question to ask the Senator, and I wondered if there were any other witnesses this afternoon.

Mr. OWEN. I will be very glad to answer any questions you ask.

The CHAIRMAN. Are there any other questions?

Mr. OWEN. There is one point I would like to call to the attention of the committee. Of course, I assume that you are now engaged in an effort to stabilize money and to bring back our country to a better condition. I want to call your attention to a very short amendment that could be put on section 13 of the Federal Reserve Act, to this effect: On page 60 of the published Federal Reserve Act, paragraph 3, line 11, after the word "staples" insert "or which are secured by notes and/or accounts receivable due both manufacturers and merchants and arising from merchandise or goods sold to them in ordinary course of business."

At present the acceptances which can be issued by banks for discount at the Federal Reserve banks are confined to securities based on warehouse receipts, but after they are sold to the public and become accounts receivable that is not available.

Senator GOLDSBOROUGH. Senator, that is section 13, you say?

Mr. OWEN. Section 13; yes. It is on page 60. It is just a few lines here which would make available accounts receivable as acceptances, and there are about 15 billions of that liquid, quick asset that is not being employed in this country. It is a matter of colossal importance, if the committee will only consider it and see what its significance is.

The CHAIRMAN. We will consider it, Senator.

Mr. OWEN. You have nothing further?

The CHAIRMAN. I believe that is all. Thank you, Senator.

Senator BARKLEY. I am sorry; I do not want to delay, but I would like to have your comment in a word on the opposition to section 10a, which authorizes the Secretary of the Treasury to engage in open-market transactions insofar as it is for the purpose of stabilizing our international exchange value of the dollar. What is your reaction to that?

Mr. OWEN. I think that the Secretary of the Treasury ought to have the power to stabilize our dollar abroad if it requires stabilization. Whenever you have fixed the gold content of the dollar and you have a colossal volume of gold behind that dollar, you will find that the American dollar will stabilize the world, just as Gustave Cassel says in his post-war lectures before the Columbia University. I will not take time to go into that, but he makes it so exceedingly

clear and he is such a high monetary authority, I thought perhaps you gentlemen might care to see what Gustave Cassel has said about it.

Any further questions you wish to ask?

The CHAIRMAN. We are much obliged to you.

Mr. OWEN. You can find that in the Columbia Press of the Columbia University, New York. I thank you gentlemen.

The CHAIRMAN. Dr. Anderson.

Senator GLASS. Mr. Chairman, before Senator Owen leaves I want to frankly say to him that I confused the Parity Act with the Legal Tender Act, Parity Act of March 14, 1900, with the Legal Tender Act. I have not been able to examine the act to see whether it made all currency legal tender.

Mr. OWEN. No; it did not, Senator. The legal tender provision was passed this last year.

**STATEMENT OF DR. BENJAMIN M. ANDERSON, JR., ECONOMIST OF
THE CHASE NATIONAL BANK, RIVERDALE, N.Y.**

The CHAIRMAN. Dr. Anderson, will you please state your name and address and occupation or profession?

Mr. ANDERSON. Benjamin M. Anderson, Jr. I live in Riverdale, near New York City, Douglas Avenue and West Two Hundred and Forty-sixth Street. I am an economist, the economist of the Chase National Bank of New York.

The CHAIRMAN. Doctor, have you examined this bill, S. 2366?

Mr. ANDERSON. I have; yes, sir.

The CHAIRMAN. Have you prepared any amendment to it?

Mr. ANDERSON. Yes, sir.

Senator ADAMS. How long have you been the economist of the Chase National Bank?

Mr. ANDERSON. Since 1920, Senator.

Senator WALCOTT. Have you written any books?

Mr. ANDERSON. Yes, sir; I have written a book on the Theory of Value, Social Value, published in 1911; a book called "The Value of Money", published in 1917; a book on the Effects of the War on Money, Credit, and Banking in France and the United States, published in 1919; and since 1920 most of what I have written has come out in the Chase Economic Bulletin.

The CHAIRMAN. You are quite familiar with the subjects covered by this bill, Dr. Anderson?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. And have been a student of them?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. We will be glad to hear from you as to what you think about the bill, whether you regard it as sound or otherwise, and whether it is practical and whether it is needed.

Mr. ANDERSON. Mr. Chairman, I want what I say to be of use to the committee. I do not want to be here merely to make a record of protest.

I believe in the gold standard, in the full gold standard. I believe it is quite unnecessary for us to depart from it. I believe that we should be much further along the road to recovery now than we are if we had not done that.

And in the reestablishment of our monetary system I prefer very much to see—I believe we should ultimately come back to—a full gold standard, in which the Government mints coin for the country, in which the Government redeems its paper money freely in gold and coin again circulates among the people.

Senator BULKLEY. When you say a full gold standard, do you mean the old parity of 20.67?

Mr. ANDERSON. That I think we shall not come back to. I am a realist, and I accept political inevitabilities, and the proposal that I shall be disposed to make today will be to return to the gold standard, though approximately the existing exchange rate is the best political compromise, and I regret the necessity of that political compromise, but I am a political realist and I recognize political facts.

Senator ADAMS. You mean a realist the same as the pragmatist in economy?

Mr. ANDERSON. I think one must be a realist, weighing political forces as well as economic factors; that sometimes political proposals are so impossible from the standpoint of economics that—well, economic facts certainly set bounds for political activities, but there is a range of economic possibilities within which political choice can be made.

Senator BANKHEAD. Do you mean that if you had the political power you would go back to the former number of grains in the gold dollar?

Mr. ANDERSON. I would; yes, sir.

Senator BARKLEY. Although it is a well-established fact that commerce, trade, industry throughout the world, has increased at a much more rapid rate than has the increase in the quantity of gold found in the world for monetary purposes?

Mr. ANDERSON. I think that it would be very difficult to establish that, Senator. But what I am trying to do now is to state very briefly a background, and the things I want to give attention to are some practical points in this bill that I think will be useful to you. I do not mean to make an argument for my general proposition. I simply want to state it.

Now, what I am particularly concerned with here is that this bill should at least be made technically correct in order that it might accomplish its own purposes. And I find evidence in studying this bill that certain passages of it could not have been drawn with an understanding of the actual processes of money credit, money market, and so on. It is with reference to those things that I want to talk to you particularly. There are things in this bill that can do terrible harm, the correction of which can leave it open to the President to accomplish his essential purposes if they can be accomplished. I do not believe it is possible to stabilize commodity prices, but at all events, the effort to do it within the framework of this bill does not need to involve all the risks that this bill now involves.

I find the greatest danger in the provisions regarding the stabilization fund, the \$2,000,000,000 which are to be appropriated for the creation of a stabilization fund, and that danger relates not to the existence of such a fund in itself but rather to the source from which those moneys are drawn.

I want to set a background for that. I brought with me some photostatic copies of the balance sheet of the 12 Federal Reserve banks as published weekly in the press—this is taken from the New York Times—and also a thing that accompanies that called “changes in amount of Federal Reserve credit outstanding and in related items”, to which I particularly want to draw your attention. I offer a copy for the record, and I pass around such copies as I have for the use of members of the committee. I should particularly like Senator Glass’ attention upon it.

The CHAIRMAN. Let it be entered in the record.

(The data submitted by Mr. Anderson are here printed in full, as follows:)

Changes in the amount of Reserve bank credit outstanding and in related items during the week and year ended January 10, 1934, were as follows:

	Jan. 10, 1934	Jan. 3, 1934, increase (+), and decrease (-)	Jan. 11, 1933, increase (+) and decrease (-)
Bills discounted.....	\$104,000,000	-\$2,000,000	-\$144,000,000
Bills bought.....	113,000,000	-8,000,000	+81,000,000
U.S. Government securities.....	2,432,000,000		+620,000,000
Other reserve bank credit.....	7,000,000	-22,000,000	-6,000,000
Total reserve bank credit.....	2,655,000,000	-33,000,000	+549,000,000
Monetary gold stock.....	4,323,000,000		-226,000,000
Treasury currency adjust.....	1,950,000,000	-43,000,000	+40,000,000
Money in circulation.....	5,634,000,000	-107,000,000	+95,000,000
Member bank reserve balance.....	2,777,000,000	+67,000,000	+23,000,000
Unexpended capital funds, nonmember deposits, etc.....	467,000,000	-35,000,000	+65,000,000

Twelve Federal Reserve banks combined

	Jan. 10, 1934	Jan. 3, 1934	Jan. 11, 1933
ASSETS			
Gold with Federal Reserve agents.....	\$2,399,895,000	\$2,618,124,000	\$2,345,320,000
Gold redemption fund with U.S. Treasury.....	44,960,000	44,540,000	39,742,000
Gold held exclusively against Federal Reserve notes.....	2,644,856,000	2,662,664,000	2,385,062,000
Gold settlement fund with Federal Reserve Board.....	643,306,000	626,653,000	405,282,000
Gold and gold certificates held by banks.....	278,039,000	279,594,000	432,189,000
Total gold reserves.....	3,566,290,000	3,568,911,000	3,222,533,000
Other cash ¹	250,611,000	228,799,000	286,759,000
Total gold reserves and other cash.....	3,816,901,000	3,797,710,000	3,509,292,000
Redemption fund—Federal Reserve bank notes.....	12,864,000	13,086,000	—
Bills discounted:			
Secured by U.S. Government obligations.....	34,424,000	35,176,000	66,383,000
Other bills discounted.....	69,268,000	70,943,000	181,768,000
Total bills discounted.....	103,692,000	106,119,000	248,151,000
Bills bought in open market.....	113,211,000	121,062,000	32,362,000
U.S. Government securities:			
Bonds.....	442,782,000	442,817,000	420,763,000
Treasury notes.....	1,033,139,000	1,053,240,000	301,406,000
Certificates and bills.....	935,825,000	935,853,000	1,060,219,000
Total U.S. Government securities.....	2,431,746,000	2,431,910,000	1,312,388,000
Other securities.....	1,462,000	1,493,000	5,102,000
Total bills and securities.....	2,650,111,000	2,650,584,000	2,098,003,000
Gold held abroad.....	—	—	51,091,000
Due from foreign banks.....	3,382,000	3,333,000	2,982,000
Federal Reserve notes of other banks.....	20,579,000	18,541,000	17,951,000
Uncollected items.....	361,796,000	504,940,000	339,550,000
Bank premises.....	51,914,000	51,834,000	53,830,000
Federal Deposit Insurance Corporation stock.....	64,680,000	—	—
All other assets.....	46,340,000	45,491,000	40,394,000
Total assets.....	7,028,567,000	7,093,069,000	6,113,143,000
LIABILITIES			
Federal Reserve notes in actual circulation.....	2,998,760,000	3,071,762,000	2,687,024,000
Federal Reserve bank notes in actual circulation.....	208,191,000	208,014,000	—
Deposits:			
Member bank—reserve account.....	2,776,857,000	2,709,919,000	2,573,944,000
Government.....	58,293,000	23,287,000	21,430,000
Foreign bank.....	4,699,000	4,492,000	20,629,000
Special deposits:			
Member bank.....	45,829,000	46,394,000	—
Nonmember bank.....	9,832,000	9,692,000	—
Other deposits.....	111,634,000	84,088,000	28,468,000
Total deposits.....	3,007,144,000	2,877,872,000	2,644,471,000
Deferred availability items.....	359,809,000	460,779,000	334,256,000
Capital paid in.....	144,946,000	144,903,000	151,309,000
Surplus.....	148,322,000	277,680,000	278,599,000
Subscription for Federal Deposit Insurance Corporation, stock:			
Paid.....	64,680,000	—	—
Called for payment Apr. 15.....	64,680,000	—	—
All other liabilities.....	35,035,000	32,559,000	17,484,000
Total liabilities.....	7,028,567,000	7,093,569,000	6,113,143,000
Ratio of total gold reserves and other cash ¹ to deposit and Federal reserve notes liabilities combined.....	Percent 63.6	Percent 63.8	Percent 65.8
Contingent liability on bills purchased for foreign correspondents.....	\$4,006,000	\$3,809,000	\$39,932,000

¹ "Other cash" does not include Federal Reserve notes or a bank's own Federal Reserve bank notes.

Mr. ANDERSON. The thing that I am going to call your attention to, gentlemen, is technical, but a failure to grasp this technical point can make all the difference between blowing this country sky high in the ensuing few years and leaving it within the power of the administration somewhat to hold down the coming inflation.

You will notice in the liability side of the balance sheet the item "Member bank—reserve account." That item is the most significant

item from the standpoint of the control of money and credit in the United States that you will find. That item is the heart of the money market. The item here stands 2,706,000,000, a year ago 2,500,000,000.

Senator ADAMS. Mr. Anderson, would you give, at least for my benefit, your idea of what a reserve is? You are using the term "reserve account." There is some difference of opinion as to what really is a true reserve. What do you understand by that term?

Mr. ANDERSON. This item is the deposits of the member banks with the Federal Reserve banks.

Senator ADAMS. But you are using the term "reserve." What do you understand by a reserve?

Mr. ANDERSON. Well, for the general principles it is that money which a bank has to meet its deposits and other demand liabilities, a part of its assets kept in the most highly liquid form.

Senator ADAMS. Available for payment?

Mr. ANDERSON. Available for payment.

Senator ADAMS. In currency of some type?

Mr. ANDERSON. For the ultimate reserve authority it should be gold, payable in gold. For the member bank the actual reserve is partly vault cash or currency and partly these balances with the Federal Reserve banks.

Senator ADAMS. Do you mean that it is or that it should be?

Mr. ANDERSON. Is in fact; and the legal reserve requirement is entirely comprised in this deposit with the Federal Reserve bank.

Senator ADAMS. Of course, my inquiry leads to this point: Can a deposit be a true reserve which cannot be drawn upon?

Mr. ANDERSON. This deposit can be drawn upon.

Senator ADAMS. I am asking you the definition. Can a deposit be a reserve which cannot be drawn upon?

Mr. ANDERSON. A reserve which cannot be drawn upon?

Senator ADAMS. Yes. Is it a reserve or a fund which cannot be drawn upon? Can that be a reserve within the meaning of your term?

Mr. ANDERSON. The meaning of this term is set by Senator Glass and the Congress.

Senator ADAMS. I am asking your opinion. I am trying to get your view of it. The reason I am asking it is because in the bill which we are now considering the term "reserve" is used, and it is provided to create that reserve in gold certificates in such form as the Secretary of the Treasury may determine. Now, if that form is determined to be such that they are not negotiable, that they may not be paid out by the Federal Reserve, could that constitute a reserve?

Mr. ANDERSON. If that is in the act, I missed it. It is certainly bad if the Federal Reserve banks cannot even get hold of the gold certificates.

Senator ADAMS. They get hold of them. The question is, What may they do with them?

Mr. ANDERSON. What is that?

Senator ADAMS. The question is, What may they do with them when they get them and what are the terms of the gold certificates? You see, the terms are to be fixed by the Secretary of the Treasury. We

do not know what the Secretary of the Treasury may put in these gold certificates. He may put in that they are not negotiable. He may put in that they are not redeemable. He may put in that they are a fixed maturity.

Mr. ANDERSON. That would all be vicious. If the Federal Reserve banks cannot freely use these gold certificates as reserve money, we would have a monstrosity, of course. It is bad enough if they cannot keep the gold.

But I should appreciate it if the Senators would allow me to bring out this particular piece of analysis, which is technical, and which I ask your attention to closely, to get to my main point regarding this stabilization fund.

The CHAIRMAN. You may proceed.

Mr. ANDERSON. This member bank reserve account, as I say, is the heart of the money market. In ordinary times if the member banks have, oh, 50 to 100 millions more in their reserves than they need, more than the legal reserve requirements, money is cheap and bank credit is expanding. If there is, on the other hand, a deficiency of 50 to 100 millions in that reserve account, the banks are under pressure, they are calling loans, they are rediscounting at the Federal to build up their reserves, money rates are rising. The control of the money market is in the control of the size of this member bank reserve fund.

And bear in mind this—I may say further with reference to how sensitive that is in ordinary times Dr. Burgess in his study of the New York money market points out that there are times when a difference of \$20,000,000 in member bank reserves in the city of New York has made a difference of one half of 1 percent in the call rate and makes a difference in the acceptance rate.

It is a sensitive thing, you see. You do not want too much in there; you do not want too little in there. You want it adjusted to the needs of the situation.

When excess reserves appear you get an expansion of bank credit if there is general confidence, an expansion of bank credit that can move with startling rapidity. On the basis of an extra dollar of excess reserves the banks can build ten, fifteen, twenty fold in their general bank credit, and as the reserves get very excessive, with general confidence, that expansion moves very fast, because with general bank credit redundant increases go into time deposits. The rate on the reserve for time deposits is only 3 percent, and you can build fearfully on that.

In the period from 1922 to 1928, the middle of 1922 to April 1928, there was an expansion of general commercial bank credit in the United States of 13½ billions in deposits and of 14½ billions in loans and investments. That expansion, unneeded by commerce—and let me put in a parenthesis here to give you a prospective on it—how big is 13½ billions? How big is 14½ billions? I will tell you in terms of what was needed to win the war. When we had to win the war we had vast things to do, and we had to have an expansion of bank credit to do it with.

We had to finance the Government 25 billions of dollars. We had to raise a great army and send half of it to France. We had to build a merchant marine. We had to transform our industries

from a peace basis to a war basis. We had to finance shipments of goods from all over the world to our allies in Europe, and we had to have an expansion of bank credit, and we expanded bank credit then 5 billions 800 millions in deposits and 7 billions in loans and investments. And we shuddered at it. It was big. We tried to hold it down, did hold it down as much as we could, but it had to be done.

Now then, in this period from 1922 to 1928, without any need for it, but because reserves in this account were getting bigger, we increased it 13½ billions in deposits and 14½ billions in loans and discounts and blew this country up.

That money, unneeded by commerce, went into real-estate mortgage loans, a vast increase, bank loans against real-estate mortgages, helped by legislation to encourage it in 1927. It went into installment finance paper—crescendo, more and more, year after year. It went into stock and bond collateral loans, including loans against foreign stocks and bonds, and it went into bank investments in bonds, including foreign bonds.

Year after year, in the Chase Economic Bulletin, as I watched that I protested against it, protested against it, analyzed the progress of it; but people were happy, prices were rising, our tariffs would not let foreign goods come in sufficient to pay our exports, but our exports were paid for by foreign loans, and everybody was happy. And, gentlemen, you can do wonderful things with credit for a while.

Senator BYRNES. Did the officials of the Chase Bank disagree with the advice that you gave in the Chase Bank Bulletin?

Mr. ANDERSON. No, sir.

Senator BYRNES. They agreed?

Mr. ANDERSON. Yes, sir.

Senator BYRNES. As to their conduct of that institution they were in accord and were opposed to this expansion of credit?

Mr. ANDERSON. Unless I had lots of time—

Senator BYRNES. Well, then go on and don't answer.

Mr. ANDERSON. I should prefer not to be diverted from this.

Senator BYRNES. All right; I won't divert you if you need lots of time.

Senator GORE. Let me ask you one question there, Doctor.

Mr. ANDERSON. Yes, sir.

Senator GORE. You say from '22 to '28 bank deposits increased over 13 billions and loans and investments over 14 billions. That is an enormous amount. How much did the reserves increase during those 6 years?

Mr. ANDERSON. I was just coming to that point, because it is a highly significant point.

Senator GORE. I beg your pardon, sir.

Mr. ANDERSON. The reserves increased about \$600,000,000—about \$600,000,000 increased reserves.

Two documents explaining this, two of the Chase Economic Bulletins explaining this, I want to put into your record if I may at this point. One is called "An Analysis of the Money Market" in 1928, and the other "Bank Expansion Versus Savings", both appearing in June of 1928, as companion studies, and in the appendix to the "Bank Expansion Versus Savings" on page 20 is an

analysis of that increase in reserves and of the factors causing it, showing how incoming gold had made a difference, our Federal Reserve credit had made a difference; a great many factors fed it, a great many factors depleted it. There is a long history there.

The net increase—I will give you the exact amount, Senator—the actual increase from June 28, 1922, to May 2, 1928, was \$576,661,000.

Senator BARKLEY. You do not contend, do you Doctor, that an increase of \$600,000,000 in reserves produced an increase of 13 billions in deposits?

Mr. ANDERSON. Precisely.

Senator BARKLEY. Is it not a fact that increase in deposits is more due to the rapidity of the turnover of credit than it is due to any increase in reserves?

Mr. ANDERSON. The question of the influence of rapidity of turnover is to be answered in the distinction between net deposits and gross deposits. There is a float in active times, but these figures I am giving you are net figures, net deposits.

One further point is that during the war we had reduced Reserve requirements still further, making them dangerously low, 3 percent for time everywhere, 7 percent for country banks, 10 percent to Reserve city banks, 13 percent for central Reserve city banks, and when I tell you that the biggest part of this expansion was in the country, not in the Reserve cities, not the central Reserve cities, and that the biggest part of it was in time deposits, you see the significance of it.

Senator BARKLEY. Might there not have been a similar increase in deposits without any increase whatever in reserves?

Mr. ANDERSON. It would be possible only if you shifted from demand to time or if you shifted from the centers where reserve requirements were high to those where reserve requirements were low.

Senator BARKLEY. The amount of bank deposits does not depend necessarily upon the amount of money in circulation, does it?

Mr. ANDERSON. Not the money in circulation; no, sir. It is the money in bank reserves.

Senator BARKLEY. Yes; it depends upon the uses to which money is put, the rapidity with which it is turned over.

Mr. ANDERSON. Not the rapidity. The rapidity does not enter into it.

Senator BARKLEY. The rapidity also with which it is transferred from one to the other and is used in business.

Mr. ANDERSON. An increase in money in circulation reduces money in reserves and tends to reduce the volume of deposits; tends to force liquidation of bank credit. A decrease in money in circulation feeds these reserves and tends to increase bank credit.

Now, then, this framework will give you a perspective, I think; that with six hundred millions—less than six hundred millions—increase in member-bank reserves in these 6 years, you got an expansion of general bank credit that made this present trouble, along with certain other bad policies I will not go into now.

Now, then, I find in this bill before you gentlemen a provision which will increase member-bank reserves by two billions; and I want to show you how to avoid that and still let the President do what he wants to do. It is the most important defect in the bill. There are many others, but this is absolutely vital. If this bill goes

through this way with this provision in it, not even the President can control the ensuing inflation. Nobody can pull it down. Once the credit gets working, once confidence gets back, once speculation gets active, and things get moving, it cannot be controlled.

Senator GORE. Do you think that deposits could pyramid on to 2 billion to the same extent and the same ratio as they did on the 600 millions?

Mr. ANDERSON. At the moment we have 900 millions excess reserves approximately, and expansion is not going on, because everybody is scared, pretty much scared. There is enough liquid dynamite spread out now to make a fearful flare-up if it gets going. I don't know any technical reason why, if it gets started, it cannot go very far, Senator, with great rapidity.

In 1924, with increased reserves of I think around 300 millions—I have forgotten the exact figure—you got some 3 or 4 billions bank expansion very quickly.

Senator BULKLEY. You mean in excess reserves?

Mr. ANDERSON. It was an increase in actual reserves, which was at the beginning excessive, and it then gradually built up by building this pyramid above it, inverted pyramid above it.

Senator BULKLEY. Yes; but I do not understand that an increase in reserves does any harm unless it is an increase in excess reserves over and above the legal requirements.

Mr. ANDERSON. It was that. They already had plenty, and this extra money that was put out by the Federal Reserve banks through buying Government securities in 1924—well, the clear proof that it was excess was in the immediate breaking of money rates to absurdly low levels, then the ensuing rapid expansion of bank credit.

The CHAIRMAN. There is an expansion of reserves now?

Mr. ANDERSON. Yes, sir; and it is not functioning now because you have got to have demand for it; you have got to have confidence there. You must want it; you must be ready to use it, have proper collateral and so on.

Senator BYRNES. What in the beginning amounted to excess reserves, as I understand you to say to Senator Bulkley, would no longer be classed as excess reserves because of requirements; is that right?

Mr. ANDERSON. After the expansion of around 4 billions of dollars took place the reserves were no longer excessive, and money rates firmed up against; yes, sir.

Senator BYRNES. Then there were no excess reserves there?

Mr. ANDERSON. But then they continued to get excess reserves because more gold came in and because, whenever there was a slackening, the Federal Reserve people would put out some more. They held back a bit in 1926. Things firmed up in 1926. Bank expansion stopped some in 1926. And then in 1927 they put out—it was less than 300 this time of additional reserves—they just blew this whole thing sky high, set that wild stock market going, that led us right into the smash of 1929.

Senator BYRNES. What is the extent of the excess reserves at this time?

Mr. ANDERSON. About 900 millions, I am told.

Senator BARKLEY. Do I understand you to say that that excess in reserves was caused because there was no demand for money?

Mr. ANDERSON. The excess is due primarily to the very large purchases of Government securities by the Federal Reserve banks in the last couple of years, especially the last year, and—

Senator BARKLEY (interposing). Would you prevent the banks from purchasing those Government securities if they have money that they will not do anything else with?

Mr. ANDERSON. You mean the Federal Reserve banks?

Mr. BARKLEY. Yes.

Mr. ANDERSON. I would not have anything like so much out as we have out.

Senator BARKLEY. What would you do with it? Where would it go if it is not out?

Mr. ANDERSON. The money of the Federal Reserve banks is money that they create. When they buy Government securities they create reserves. They pay for the Government securities by giving checks on themselves, and those checks come to the commercial banks and are by them deposited in the Federal Reserve banks, and then money exists which did not exist before.

Senator KEAN. You mean credit?

Senator BARKLEY. You mean credit exists? It is not actually an increase in money?

Mr. ANDERSON. These reserves are the liabilities of the Federal Reserve banks. The reserves in the assets of the member banks are a liability of the Federal Reserve banks.

Senator BARKLEY. But it does not result necessarily, and probably not at all, in an actual increase in Federal Reserve notes put out in circulation?

Mr. ANDERSON. No, not Federal Reserve notes.

Senator BARKLEY. Or Federal Reserve bank notes?

Mr. ANDERSON. No.

Senator BARKLEY. It does not increase the circulating medium of money out at all?

Mr. ANDERSON. No, unless there is pressure for it from the public. If the public wants more, then the member banks will draw on these balances in the Federal, the deposits will go down, and Federal Reserve notes will go out.

Senator BANKHEAD. Let me ask you a question.

Mr. ANDERSON. Yes.

Senator BANKHEAD. Senator Adams asked your definition of the word "reserve" that you used, and your answer to my mind was not satisfactory. Do you count reserves, the word used there, as the amount owed by the Federal Reserve bank to member banks?

Mr. ANDERSON. That is for the purpose of this definition by act of Congress, yes.

Senator BANKHEAD. And that is all, it's balances due to the member banks?

Mr. ANDERSON. Yes, sir.

Senator BANKHEAD. And that is made up of two items—first, the statutory reserve of a certain percent, plus additional balance that member banks have left there. So the only way that those reserves accumulate is by virtue of the member banks not using their money

but leaving it on deposit with the Federal Reserve bank. Then, how do you figure that an indebtedness of the Federal Reserve bank to member banks creates a situation where credits in the banks may be pyramided to such an extent as you have indicated?

Mr. ANDERSON. The process by which that takes place—I am assuming now an ordinary situation with confidence pretty high, people wanting to borrow—the process is this: Let us take, first, a situation where we have no excess in the general money market; some banks have too much, other banks not quite enough; bankers like to use their money, want to make a profit on it.

Senator BANKHEAD. They cannot do that as long as they are leaving it with the Federal Reserve, can they?

Mr. ANDERSON. They can lend. They have to have these excess reserves in the Federal to lend, increase their loans, or they may increase their investments.

Senator BANKHEAD. They can do that whether they have the balance with the Federal Reserve or have it at home, can't they, just the same way and to the same extent?

Mr. ANDERSON. You may call it vault cash, if they took it out of the Federal Reserve bank and put it in vault cash.

Senator BANKHEAD. Yes. And they are just as likely to loan it if they have it in their own bank as if they have the balance in the Federal Reserve bank, are they not?

Mr. ANDERSON. There would be no great difference, except it is rather more convenient to have it in the Federal.

Senator BANKHEAD. Then the fact that it is a larger reserve than usual has nothing to do with it, as I get it from your statement, because they can draw it back in or they can keep the same amount of money back home for lending purposes?

Mr. ANDERSON. Bankers would not carry it. In ordinary times they would not carry either in the Federal or in their own vaults more—

Senator BANKHEAD (interposing). They would have it there or with a correspondent somewhere else?

Senator GLASS. I suggest the witness be allowed to answer one question before he is asked another.

Senator BANKHEAD. I have not been able to get him to answer one yet.

Senator GLASS. You do not give him a chance.

Mr. ANDERSON. I will try to explain, Senator, the actual process by which this bank expansion takes place on the basis of excess reserves.

Assume, first, a situation where there is no general excess. Some banks have a little too much; others not quite enough. Bank A makes a loan to try to use its excess reserve profitably. As it makes that loan it gives the borrower a deposit credit. The borrower does not want a check on the Federal Reserve bank. He does not want cash out of the bank's vault. He wants to draw a check on the bank that makes the loan. He is a customer of the bank.

So, then, what takes place when the bank makes a loan is an increase in the balance sheet of the individual bank on both sides—loans up, deposits up.

Now, the bank doing that would ordinarily expect in a few days to lose its excess reserves, because it would expect the depositor to

check against that account and that check to go to some other bank and that check to be presented by the other bank through the clearing house, with a transfer of its excess reserve from one bank to another bank, and it would ordinarily go from the bank that had too much to some other bank that had too little, because the bank that had too little would be selling some securities or perhaps calling a loan to put itself in a position to build up its reserve.

So that in that case no expansion takes place. One bank is expanding and others contracting. Money is shifting from one bank to another and no expansion takes place.

But suppose on the same day that all of the banks, or many of the banks, have too much. Each of them is making additional loans and giving additional deposit credits. And then the next day they meet at the clearing house and none of them loses any money. Checks are drawn against these newly created deposits. Checks are drawn against the Chase and deposited with the Guaranty or the City. Checks are drawn, however, against the City or the Guaranty and deposited in the Chase, and we simply swap checks at the clearing house, and none of us loses any cash, and we still have excess reserves.

The reserves are not quite so excessive now, because we have created deposits against which we must keep an additional 13 percent, but next day we still have 87 percent of the original excess reserve. We go and lend again—and again and again, day after day, building up increased deposits, increased loans, until the new reserve is just enough to balance the increased deposits. That means that with the 13 percent reserve requirement in New York we can go between seven and eight times in building if it is demand deposits. In the other reserve cities they have 10 times, because they have a 10 percent reserve requirements. In the country banks 100 divided by 7 to get the number of times.

When it comes to time deposits, it was 33 $\frac{1}{3}$ times. That happened between 1922 and 1928, this appalling thing that I am trying to tell you. It will happen again. The minute you get this country feeling good it will use excess reserves.

I am coming now to my central point about this bill, that is, the bill as drawn. As the exchange stabilization fund is constituted, it must lead to a further gigantic increase in member bank reserves which are already excessive to the amount of \$900,000,000.

Senator BARKLEY. Do you think that the fact that the banks, many of them if not most of them, have ceased to be banks and have become mere depositories and are not responding to the needs of business, requiring the R.F.C., through the device of a mortgage loan company, to loan money to business, has anything to do with increasing these reserves?

Mr. ANDERSON. Senator, you assume the fact in your question that the banks have ceased to be banks.

Senator BARKLEY. I did not say, all of them; I said many of them.

Mr. ANDERSON. If there were greater confidence on the part of many bankers, they would be making more loans. There are other banks that are making all the loans that there is any ground for making.

Senator BARKLEY. Regardless of my terminology, do you think the fact that they are not making loans requires private industry to

go through the organization of mortgage and loan companies to apply to the R.F.C. for loans, and has that anything to do with the piling up of excess reserves?

Mr. ANDERSON. Mortgage loans are not proper loans for commercial banks to make.

Senator BARKLEY. That is not what I asked you. I do not care to go into whether they are or not.

Mr. ANDERSON. You are speaking of mortgage loans.

Senator BARKLEY. I am asking you whether that had anything to do with piling up reserves, assuming that they are perfectly justified in making loans?

Mr. ANDERSON. There are two causes for the failure of bank credit to expand at the present time—

Senator BARKLEY. I did not ask you that.

Mr. ANDERSON. One of them is the thing that you refer to, that some banks are holding back on loans through lack of confidence in the situation. Some banks are not making the loans that they would make in ordinary times. The other is that the borrowers who are strong, whose credit is good, are very slow and reluctant to use their credit.

Senator BARKLEY. Now, will you answer my question?

Mr. ANDERSON. Have I not answered it?

Senator BARKLEY. You have not touched it. I asked you whether that fact had anything to do with piling up reserves of 900 million dollars in the banks.

Mr. ANDERSON. Not with the piling up of the reserves, but with the fact that the reserves are as excessive as they are.

Senator BARKLEY. That is piling up, is it not? What is the difference? If you pile up something, you have got more than you need. My language may not have been economically technical, but still I think it means the same thing.

Mr. ANDERSON. Your point is that you would explain the failure of bank credit to expand at the present time by the fact that banks are not making as many loans as they should?

Senator BARKLEY. I am simply trying to find out if you attribute any part of this 900 million dollar excess in reserves to the fact that banks are not functioning as money lenders as they do in ordinary times.

Mr. ANDERSON. I will agree that part of the explanation of the failure of bank credit to expand is the reluctance of many banks to make loans as freely as they would in ordinary times.

The CHAIRMAN. You spoke about introducing certain bulletins.

Mr. ANDERSON. Yes, sir. These two [indicating] cover an analysis of the money market.

The CHAIRMAN. Do you want the entire bulletins in in each case?

Mr. ANDERSON. Yes, sir.

(Two bulletins referred to and submitted by the witness, being Chase Economic Bulletins issued by the Chase National Bank of the city of New York, dated, respectively, June 4, 1928, and June 25, 1928, were received in evidence, and will be found printed in full at the end of today's record.)

Mr. ANDERSON. My next point is with regard to the stabilization fund. The British fund was not created, as I understand it, by

taking gold out of the Bank of England. There was no devaluation there, no profit on the Bank of England's gold. The British stabilization fund was created out of regular money market funds gotten in the ordinary way. My understanding is that the British Government turned over to this stabilization fund some government securities, though I am not fully informed as to that, which were used to get money when they needed it. It was taken by the market in the usual way.

There is no evidence of any great change in the volume of bank resources or reserves in England. The item in the British bank statement corresponding to these member bank reserves would be the "bankers' balances" with the Bank of England. That figure in June of 1932 stood at about 85 million pounds. It has increased some since then. In September 1933 it stood at 102 million pounds, an increase of 17 million pounds. That is a very small item in relation to the supposed 2 billion dollar stabilization fund of the British Government.

Our Treasury, if it wants a stabilization fund, can get one in the same way, from regular sources which will not in themselves affect the volume of reserve money. I think the best way for the Government to take profits, if it is going to take profits on the gold in the Federal Reserve banks, is not to take the gold but to take Government securities at the Federal Reserve bank, the credit of the Government—take them and cancel them and retire them. That is what was done under the Bank of France's stabilization fund. They were canceled. It made no change in the money market situation, no increase in money-market funds. The credit of the Government as a borrower is very sharply increased when it reduces its debt by about two and a half billion dollars.

Let them use the funds they get from the regular sources, from the sale of securities to the banks, and the public from taxes, whatever form they please, in constituting that fund; but let them not take out of the Federal Reserve banks gold or its equivalent in gold certificates and put them to work in this way, because if they do, every time they buy gold abroad, foreign exchange, above all, Government securities, they put additional funds out which come into member bank reserves and feed this already swollen volume of member bank reserves.

I want you gentlemen to question very closely on this point certain men who understand that very well, men who know what increases and what decreases member bank reserves, and get them to tell you whether in any way it is possible to use the gold of the Federal Reserve banks or part of the gold of the Federal Reserve banks or the gold certificates. I particularly want you to question Dr. Burgess of the Federal Reserve Bank of New York, to question Governor Young of the Federal Reserve Bank of Boston—

Senator BARKLEY. We have done that.

Mr. ANDERSON (continuing). With reference to this specific point, as to whether it is possible to use this reserve money in the way designated without making an unmanageable increase in member bank reserves.

Senator GLASS. Governor Young advocates the retention of the gold in the Federal Reserve banks.

Mr. ANDERSON. I would advocate that. Take the profit in the form of Government securities in Federal Reserve banks; but I want you to question him on this particular point.

Mr. YOUNG. I answered that question.

Mr. ANDERSON. Would you agree with what I said about it?

Mr. YOUNG. I put it that it would increase it 4 billion. I think your figure is 2 billion. There is approximately 4 billion profit if you devalue 50 cents on the dollar. The Treasury has to borrow money and pay interest. Obviously they are not going to do that very long. They are going to use the gold by depositing gold certificates and thereby creating that much more excess reserve.

Mr. ANDERSON. Yes; but you will agree that it will make an utterly unmanageable increase in member bank reserves, which it is hard to control when once inflation gets going.

Mr. YOUNG. Yes; it is almost unmanageable now.

Mr. ANDERSON. And it would be then quite unmanageable.

Senator BYRNES. Governor Young, do you see any danger in excess reserves unless there is excess demand for them?

Mr. YOUNG. I feel that during the period from 1922 to 1928 we had very few excess reserves. It is true that during that period the System operated in the open market by buying Government bonds at times when it thought business was slacking. But when it bought those Government bonds, while it had a tendency to ease money by permitting member banks to reduce their rediscounts, I do not think, if my memory is correct, that the excess reserves were any more than 50 or 60 millions of dollars, which is normal. You cannot avoid excess reserves entirely. After 1929 the System purchased Government bonds in large amounts, and those purchases originally did not create any great amount of excess reserves. It brought the rediscounts in the System from about a billion down to about 100 million.

Since then we have had excess reserves in member banks, there being no demand on the part of the banks to lend, obviously, and there has been no pyramiding. It has had somewhat the effect of decreasing the total volume of bank holdings throughout the United States. During the bank holiday reserves were absorbed. After the bank holiday, when the banks reopened, that market flow came back and excess reserves were created in the System and since the holiday they have ranged all the way from 300 million to 900 million dollars, or approximately those figures.

Senator BYRNES. During the period you have had excess reserves you have had contraction?

Mr. YOUNG. That is right.

Senator BYRNES. It does not necessarily follow that you have had this pyramiding?

Mr. YOUNG. No; but what I want to point out, and what I think Dr. Anderson wants to point out, is this, that with the 900 million dollars of excess reserves we have now there is a possibility of expanding credit. If that would go in the right channels, all well and good. If it went into a highly speculative situation, stocks and bonds or what not, that might not be healthy.

The method of stopping that is the same method that the System attempted in 1928, by selling Government bonds. Starting late in

November 1927, when there was an extra movement of gold, rather than disturbing the credit situation at that time the Federal Reserve banks bought Government bonds to offset the amount of gold that was exported. About the middle of November, when there was a very expanding speculative market, the System determined to stop buying to see what the effect would be; and early in January 1928, the System proceeded to sell Government bonds with the idea of throwing the member banks into debt, and that would have a tightening effect on money, and that in turn would put a check on speculation.

Of course you all know the story—that even with the limited amount we had at that time, it was impossible to control the situation in the way we attempted to control it.

What I have tried to bring out and what I think Dr. Anderson is trying to bring out is that if this goes through as contemplated in the bill it gives the Treasury, on a 50-cent devalued dollar, approximately 4 billions of dollars that is bound to end up in excess reserves as fast as the Secretary uses it, as he is permitted under the act to use it. The initial book transaction of marking our gold up, marking up the Treasury's balance 400 millions, would have no effect on excess reserves—

Senator GORE. I did not catch that.

Mr. YOUNG. The initial transaction of our taking 4 billions of gold into the Reserve System and giving the Secretary of the Treasury credit for it, is nothing but a book entry and would have no effect upon the excess reserves of the member banks in the Federal Reserve System; but as the Secretary of the Treasury proceeded to spend that money, the excess reserves would increase to the extent he spent it, and the extreme possibility, with the 50-cent dollar, is 4 billions of dollars, plus the 900 millions we already have, making very close to 5 billions of excess reserves. If there is a demand for money, and that starts pyramiding, there is no limit to where it can pyramid.

Senator BARKELEY. Governor, let me ask you this, if I may interrupt. What is the value at \$20.67 of the gold now owned—not held, but owned—by the Federal Reserve banks?

Mr. YOUNG. You mean, at \$34.45?

Senator BARKLEY. No, sir; at \$20.67. That is the statutory price in this country.

Mr. YOUNG. Again I will have to guess. I think we own \$3,254,000,000.

Senator BARKLEY. So that with a 50-cent dollar that would represent \$6,400,000,000.

Mr. YOUNG. In addition to that, Senator, there is some gold in the Treasury backed by Treasury notes.

Senator BARKLEY. Yes; I realize that. That is what I am coming to. Regardless of the transaction involved in this bill, if the President should exercise the authority which he has now to devalue the dollar on the basis of a 50-cent dollar, thereby creating twice as many gold dollars as there are now, the same situation might be produced without the passage of this bill in the matter of expanding reserves and credit, might it not?

Mr. YOUNG. If we kept the profit: no.

Senator BARKLEY. Regardless of who keeps the profit, it would offer opportunities for the issue of twice as much currency upon a given quantity of gold as it does now, no matter who holds that gold.

Mr. YOUNG. That is true, if there is a demand for it.

Senator BARKLEY. So, if there was a demand for that currency and the President should issue a proclamation devaluing the dollar to 50 cents, and this bill did not pass, and you hold that gold, you could use that as a means for issuing twice as much currency if the demands of the country required it?

Mr. YOUNG. That is true, and if we held it without giving any profit to the Government.

Senator BARKLEY. I am not talking about any profit now.

Mr. YOUNG. I am talking about purely the mechanics of it, Senator; that is all. If that profit stays with us, there would be no increase in the excess reserves in our banks. Do not misunderstand me. I am not arguing to keep a profit.

Senator BARKLEY. I understand you are not. You have gold in bullion form, have you not?

Mr. YOUNG. That is right.

Senator BARKLEY. So that any given quantity of gold representing a dollar now, after devaluation, would be \$2?

Mr. YOUNG. Yes.

Senator BARKLEY. And that \$2 would be yours?

Mr. YOUNG. That is right.

Senator BARKLEY. And based upon that \$2 you could issue \$2 in Federal Reserve Bank notes where now you can issue only one?

Mr. YOUNG. That is right.

Senator BARKLEY. So that the result would be the same if the country demanded an increase in currency to that extent?

Mr. YOUNG. No; because the member banks would have to give me a check on their reserve balance to get that currency.

Senator BARKLEY. I know; but to the extent that the 40-percent reserve allowed you, you could do that?

Mr. YOUNG. Yes.

Senator BARKLEY. And without regard to any devaluation or the passage of any law, if confidence returned and people assumed a speculative attitude, these reserves, and this inflation in credit and speculation and expansion could go on anyhow?

Mr. YOUNG. Yes, sir.

Senator BARKLEY. Just as it did in 1928 and 1929?

Mr. YOUNG. That is correct.

Senator GORE. Up to the additional basis of four billions. I did not quite understand how this enhancement of four billions would constitute part of the reserve and serve as a basis for expanding credit.

Mr. ANDERSON. May I interpose, Governor? I think there is a distinction to be drawn there. If the gold stays in the Federal Reserve banks, or even if the Government takes the gold and gives the Federal Reserve banks gold certificates credited against it, and the Government takes its profit in the form of Government securities from the Federal Reserve banks, rather than gold or gold certificates, then there is no change in the volume of member bank re-

serves; and if the Government constitutes a stabilization fund out of money borrowed from the general money market, again there is no change in the volume of member bank reserves; but the possibility that the Federal Reserve System might put out a much larger volume of credit would remain. It would be done by definite action: (a) Member banks rediscounting at the Federal Reserve banks; (b) the Federal Reserve bank buying acceptances in the open market; or (c) the Federal Reserve bank purchasing Government securities.

In the absence of any one of those three acts member-bank reserves would not be increased. Whereas if, on the other hand, the Government takes the actual gold as the basis for its stabilization fund, or gold certificates as the basis for the stabilization fund, and uses them, the member-bank reserves are automatically increased.

Senator COUZENS. And with the consequent loss of profit to the Federal Reserve and the other banks?

Mr. ANDERSON. Senator, I am not thinking about profits to banks; I am thinking about this country. I am thinking about the President's desire to make effective his policy, if you please. He does not want a situation that he cannot control. Which is the policy that you are going to choose to regulate credit? As I would do and as Senator Glass would do, we would regulate it with respect to the needs of trade, while the President would regulate it with respect to the price level. In any case you want it under control. You do not want to put it so large than when the thing starts you cannot put it down.

The CHAIRMAN. Would control by the Federal Reserve Board of the rediscount rate have any effect?

Mr. ANDERSON. Almost none. Under that situation the rediscount rate is effective only when the banks have rediscounts. The volume of rediscounts on the balance sheet is 103 million dollars.

Senator GLASS. Negligible.

Mr. ANDERSON. Yes; negligible. The possible checks are few as things stand. They might sell Government securities; but would the Secretary of the Treasury let them sell them?

Senator GLASS. What would happen if they should undertake to sell Government securities?

Mr. ANDERSON. I venture to state that political pressure would stop them.

Senator BULKLEY. What would happen to the price of Government securities?

Senator GLASS. Suppose political pressure did not stop them. Suppose they would put them on the market.

Mr. ANDERSON. It would be very bad for the Government securities market.

Senator GLASS. What would happen to the Government securities? Would they appreciate or depreciate?

Mr. ANDERSON. Oh, they would depreciate.

Senator GLASS. Would not a 10-percent depreciation wipe out all the surplus of the Federal Reserve banks?

Mr. ANDERSON. I think they have largely short governments. I do not know just how that stands now. I think they might let them run off to a considerable extent, but I think that the Treasury pres-

sure against their doing that would make it a very ineffective means of controlling it if the thing started. Of course, as to the long-term bonds, you are quite right, Senator.

Senator ADAMS. You spoke a while ago of this \$900,000,000 excess reserves as so much financial dynamite?

Mr. ANDERSON. Yes, sir.

Senator ADAMS. It depends upon the way it is used. Dynamite may damage or it may do good. Back in March our trouble was that we had less than adequate reserves in the Federal Reserve System; that is, the banks were short of money. Now we are getting to the place where the banks have accumulated cash. May it not, under proper administration on the part of the banks, serve to promote business revival? Of course business revival is always accompanied by the danger of overdoing it; but is it not the program of the administration to try to stimulate business revival? Are not these accumulated reserves the material out of which that revival may be constructed? And, again, one other thought; may it not be the very means to aid the Government when it comes to float its bonds, which it must do? It has a reservoir of available money to take over Government securities.

Mr. ANDERSON. In principle undoubtedly you are right, Senator; but the question is how much is needed, how big an excess fund you need. The war time gave us some experience on that. The Federal Reserve banks regularly preceded a bond issue, a Liberty bond issue, by buying some Government securities to make the money market easier, and then after the securities were placed they would sell off these Government securities again. The amounts that were needed were small. In connection with the greatest Liberty Loan, the \$7,000,000,000 Fourth Liberty Loan issue, the Government securities purchased by the Federal Reserve banks was less than 255 millions, and they had them only for a few days. That was quite enough—just priming the pump.

Back in the pre-war days in England these operations by the Bank of England selling Government securities were small, microscopic almost, and they found times when the sale of 1,000,000 pounds of Indian consol bills was quite sufficient. Nine hundred millions is dangerously large, but would be controllable under existing circumstances because they could sell enough Government securities to check it up if it got to going too fast.

Does that answer your question, Senator?

Senator ADAMS. I think so.

Mr. ANDERSON. It is a question of amount; but if we are going to add 2 or 3 billions to it, it makes a ghastly picture.

Senator COUZENS. What are you going to do about section 10-A? Are you going to amend it or reduce the amount?

Mr. ANDERSON. 10-A relates to the source from which the funds are drawn?

Senator COUZENS. And the amount.

Mr. ANDERSON. I would provide that they get it not from this source, but from the general market. They might take Government securities from the Federals. They might turn that into the stabilization fund disposing of it on the market as—

Senator BARKLEY. Do you recommend that the Treasury get these 2 billions in the market by issuing Government bonds and borrowing?

Mr. ANDERSON. They would not need to issue new Government bonds. They could take those in the Federal Reserve now for those purposes.

Senator BARKLEY. How can they get those that are owned by the Federal Reserve banks?

Mr. ANDERSON. That is, instead of taking their profit in the form of actual gold or gold certificates, let them take their profit in the Government securities now held by the Federals.

Senator BARKLEY. And sell them?

Mr. ANDERSON. To the public, or to the banks as they need to, but not to the Federal Reserve banks.

Senator COUZENS. So you do approve of the Treasury buying 2 billion dollars as proposed?

Mr. ANDERSON. The stabilization fund is desirable—

Senator COUZENS. Outside of the source, I understand you agree with section 10-A, then?

Mr. ANDERSON. I am not trying to evade, Senator. I am trying to keep the whole thing in mind, and this point struck me. In general I would approve of the stabilization fund under these circumstances, pending a definite restoration of the gold standard.

Senator GLASS. Based on 2 million dollars?

Mr. ANDERSON. Yes.

Senator COUZENS. For the purposes specified in the bill?

Mr. ANDERSON. For controlling the value of the dollar as measured against gold.

Senator COUZENS. By all of the means specified in the bill?

Mr. ANDERSON. I am reluctant to have them do all the things proposed there.

Senator COUZENS. What are you reluctant to have them do?

Mr. ANDERSON. It would seemingly give the Secretary of the Treasury the authority to do a general banking business.

Senator BARKLEY. Is that really a fair statement?

Mr. ANDERSON. I do not know. I am not a lawyer. I did not mean to raise that point.

Senator BARKLEY. Any effort to stabilize the dollar, which is an equation in international transactions, must be broad enough to include all transactions that are international; is not that true?

Mr. ANDERSON. It should include those things that are dealt in in the exchange markets, bills of exchange, cable transfers, and so forth. There is this to be said about it, by the way: We can get into a lot of trouble in going into foreign markets and buying exchange there or buying gold there and interfering with their policy, as we would dislike very much having foreigners come here and buy. I think we had better have a free gold market of our own, if we are going to do this, and let the Government be the biggest factor in the gold market. I would rather see it done that way, and then foreigners cannot criticise us. A lot of trouble comes when the central bank or Government is playing in foreign exchange. The trouble comes both at home and abroad.

Senator BULKLEY. Does the British stabilization fund do that now?

Mr. ANDERSON. They buy and sell in London various kinds of foreign exchange.

Senator COUZENS. And bills of exchange and credits of all sorts?

Mr. ANDERSON. I would suppose not.

Senator COUZENS. That is what this bill provides, to do all of those things.

Mr. ANDERSON. I would propose that we limit it to foreign exchange and gold.

Senator BARKLEY. They even go into the market to buy American dollars.

Mr. ANDERSON. They buy American dollars sold in London.

Senator BARKLEY. But they did that in order to increase the value of the American dollar as measured by their particular standard.

The CHAIRMAN. We were told that there were only three men in all England who knew what they did.

Mr. ANDERSON. There is a great deal of speculation about it. I have an article here from the London Economist of May 13, 1933, that might go into the record as useful information about the British stabilization fund. But I do not think anybody here knows, except Professor Sprague, who probably would not be free to tell you everything that he learned in confidence about it.

(The article referred to and submitted by the witness from the Economist of May 13, 1933, will be found printed in full at the end of this record.)

Mr. ANDERSON. Now, I come to the second main point: The Treasury is not the place for control of money and credit policy because the Treasury is a great borrower. Money policy and credit policy are primarily designed to meet other things than those of the borrowing needs of the Treasury or the desires of the Secretary of the Treasury to get a somewhat lower rate, or things of that kind.

According to the sound banking principle, credit control or money control should be with respect to the needs of trade and the quality of credit. It should be tightened up when there is danger of speculation beginning.

Senator COUZENS. As it was in 1928 and 1929?

Mr. ANDERSON. It was not effectively done in 1928 and 1929. It should have been tightened up long before, Senator. I am talking about not what we did but what the banking principle should do.

Senator GLASS. And under the Banking Act of 1933 it would be tightened up before it got very far.

Mr. ANDERSON. You are thinking of it from the standpoint of what goes on inside the individual bank?

Senator GLASS. I am thinking of it from the standpoint of gambling on the stock exchange.

Mr. ANDERSON. I am thinking, Senator, that if you make too much money, no matter what restrictions you put on the stock exchange, too much money is going to make gambling somewhere. In 1920 the gambling was in sugar and wheat and things of that kind, or it may take place in Florida real estate.

Senator GLASS. Not only in Florida.

Mr. ANDERSON. No; not only in Florida.

Senator COUZENS. We must protect the chairman.

Mr. ANDERSON. I apologize to the chairman.

The point I make here is a vital point. Whatever be the money policy, it is a policy which will frequently be inconsistent with Treas-

ury policy. If the control is to be in the Government, if you do not want the Federal Reserve banks to control your credit and money any more, still it should not be in the hands of the Secretary of the Treasury. It should be in the hands of an absolutely independent authority responsible to the President, as the Treasury is responsible to the President. But if the President's policy is to regulate money and credit with reference to the level of commodity prices, that policy will often be inconsistent with the Treasury's policy of getting a lot of money to spend.

Senator COUZENS. How would you carry out the constitutional provision that the Government shall regulate the volume and the value of money? How do you interpret it?

Mr. ANDERSON. Not the volume; no.

Senator COUZENS. The value.

Senator BARKLEY. "Congress shall have the power to coin money and regulate the value thereof."

Senator GORE. The Government shall have power to seize money and to destroy its value—that is the new interpretation.

Senator COUZENS. No; I am asking the witness for his interpretation.

Mr. ANDERSON. I interpret it in the light of what men meant when they used that language in that day, and they had a very simple thing in mind. They wanted good money. They did not like paper money. They forbade the States to issue bills of credit, and they simply meant to give Congress power to name the weight and fineness of a coin and to mint it.

Senator COUZENS. And not the value of it?

Mr. ANDERSON. To regulate the value thereof. I interpret that, of course, as a matter of economics, technically.

Senator COUZENS. What did the fathers mean when they put that in the Constitution?

Mr. ANDERSON. I think they were thinking especially of the ratio between gold and silver.

Senator BYRNES. If you wanted to regulate the value, what other words could you have used simpler and clearer than "regulate the value thereof"?

Mr. ANDERSON. I am not a constitutional lawyer, and any opinion that I might express on this point would not be very useful to the committee.

Senator GORE. Let me interject one observation and say, "and the value of foreign coins." Does anybody imagine that Congress can regulate the volume of foreign coins—if that is what they meant?

Senator COUZENS. It can in this country. That is what the Constitution applies to.

Senator GORE. Yes; but it cannot regulate the volume of foreign coins.

Senator KEAN. They have not succeeded in doing it yet.

Senator GLASS. Is a coin a printing press operation?

The CHAIRMAN. The Supreme Court says it may be.

Mr. ANDERSON. I had understood the meaning to be, putting a stamp on a piece of minted metal, attesting its weight and fineness.

Senator BYRNES. The Supreme Court does not quite agree with that.

Mr. ANDERSON. I am talking economics now.

Senator BARKLEY. We are dealing with constitutional questions. The Supreme Court has over and over again interpreted it to mean that not only can Congress coin metal into money, but provide paper money, different denominations, its value, and all that. So we have got to interpret the Constitution at least in the light of what the Supreme Court has said about it.

Senator COUZENS. And not on some economic theory.

Mr. ANDERSON. I am not an authority on constitutional law. I would like to go on—

Senator GLASS. The President and I are.

Senator ADAMS. We lawyers are not as bad as you intimate. Every time anybody gets in a hard place he says, "I am not a lawyer." It should not be charged up against me. We are really not such a bad lot. A constitutional lawyer is not such a mysterious animal as people imagine. If there is one thing that is simple, it is the wording of the American Constitution.

Senator COUZENS. Have you any other suggestions with reference to amending the bill?

Mr. ANDERSON. I have some suggestions further. This matter of separating the Treasury from the control of the money policy, instead of putting the money policy in the Treasury, seems to me very vital.

After the period of inflation in Germany, that was one of the drastic reforms insisted upon and agreed to. There was action in France of a similar sort, limiting what the Treasury could do.

I think all the authorities on this subject agree as to the inconsistency between monetary policy and Treasury policy and the need for having the money policy separate.

Senator STEIWER. Who would have control of the money policy?

Mr. ANDERSON. I would revitalize the Federal Reserve banks and have them do it. I think that is about the best way to do it,—along the lines that the original Federal Reserve Act called for; but if it is better to put it in the Government, still it ought not to be in the Treasury.

Senator GLASS. The existing Federal Reserve Act calls for that too, but they do not assert themselves.

Mr. ANDERSON. Let me call your attention to one further thing, however. What this act does is to divide the control of money and credit. It does not make the Treasury sole controller. It leaves a large volume of existing control with the Federal Reserve System. And there you have a further difficulty—lack of coordination.

Senator BARKLEY. Does it not leave the Federal Reserve System just as much control as it has now, except, according to your theory, the extent to which the Treasury may engage in these open-market transactions for stabilization of the dollar?

Mr. ANDERSON. It is large enough to vitiate the Federal Reserve control.

Senator COUZENS. I want to mention that Senator Barkley has a number of times mentioned "open-market operations." There is nothing in the act specifying open-market operations. There can be private transactions under the act, but not open-market transactions.

Senator GLASS. They can rediscount your note if they want to.

Senator COUZENS. They would not want to.

Senator GLASS. They would rediscount yours, but they would not rediscount mine.

Mr. ANDERSON. One further point, gentlemen——

Senator WAGNER. Would you limit the particular office you are going to create now, to manage the \$2,000,000,000 fund? Would you limit the powers of that office any more than we limit the powers conferred upon the Secretary of the Treasury?

Mr. ANDERSON. The powers given to the Secretary of the Treasury seem to be much too wide. I would limit it to an exchange stabilization fund, with ability to buy Government securities, but I think that last you do not need to do. I think it is not very desirable to do it. You create an artificial Government-securities market. I would rather make just sound general policy, and you will find that the Government can borrow all it needs.

Senator GLASS. Dr. Miller thinks that if you insert the word "sole" there—for the sole purpose of regulating exchange—that might cure the thing.

Mr. ANDERSON. That would not be enough, unless you also make them get it from the general money market.

Senator GLASS. Yes; I agree with that.

Senator COUZENS. What else?

Mr. ANDERSON. One further major point. This vast credit expansion, from 1922 to 1928, had it been spread out gradually over a period of 25 years, and held back when things were going too fast, and gradually used over a period of 25 years, would have had a beneficent effect upon the world. Instead, there was one grand splash and then disaster. The quality of credit, had it not expanded so much beyond the volume of business, the volume of production, would have been kept sweet and sane by being related to production. You have now, through this revaluation of gold—which I concede you are going to do—you have now an opportunity to fix the thing so that you do not use it all up at once. It can be held back and used when needed, to expand credit here and expand it there. It can be gradually used and spread over two decades; or you have the option of one wild speculative orgy, with a worse disaster following than we are in now.

Senator COUZENS. How soon would that happen, do you think?

Mr. ANDERSON. I can tell you the time of day, Senator, but I cannot tell you the day of the month.

Senator BARKLEY. Do you think it would be between 10 and 3?

Mr. ANDERSON. It might.

Senator GORE. Very likely.

Senator KEAN. I would like to ask whether you have thought about this stabilization between 50 and 60, and whether you do not think the dollar has been so depressed, by every effort that could be made to depress it, that it ought to be stabilized at a higher price?

Mr. ANDERSON. I do. Sixty is too low.

Senator KEAN. Would you say 65 or 70?

Mr. ANDERSON. I would do it about where the exchanges have been lately.

Senator KEAN. That is 64.

Mr. ANDERSON. Having especially in mind that that would make it easier to get international agreements.

Let me make this point: That the difference between 50 and 60 is just about twice as great as the difference between 100 and 90. You are getting down to a point where every point is a great big percent age. It is 16¾ percent, I believe, going down, or it is 20 percent looking up. That is too wide a range, far too wide a range to beget confidence.

Senator WAGNER. Do you happen to know what are the values of currency of the different countries compared to the value of gold? I mean the percentage?

Mr. ANDERSON. What relation are you thinking of?

Senator WAGNER. For instance, take the relationship between our dollar and the gold dollar. It is about 63 cents now, or 62.

Mr. ANDERSON. Yes.

Senator WAGNER. What is the relationship of the currency of other countries with reference to the value of gold?

Mr. ANDERSON. The British, I think, are about 35 percent depreciated—maybe a little more now.

Senator COUZENS. That is about 65.

Mr. ANDERSON. Yes. I am not absolutely sure.

Senator WAGNER. I saw the figures the other day, and they were about on a parity with our own, so that if you wanted to increase the value of our dollar, would we not be, so far as the international situation is concerned, taking into consideration export trade, at a disadvantage with these other countries?

Mr. ANDERSON. I do not attach great importance myself to this notion of purchasing power parity, or getting price levels of different countries in exact equilibration. After all, it is articles of international trade that count most, and I suppose, in the case of cotton, for example, the parity of New York and Liverpool is exact right now, and a lot of things of that kind, but this I would be sure of, that with exchange stabilization and definite confidence on the part of the exchange markets in the values of various currencies, export and import trade for all of them would go up.

If, further, Senator, we could get these tariffs of ours down, that would give us a great rise in American prices and in world prices.

Senator GLASS. You are treading on dangerous ground now. We promised to do that in our platform, but we have forgotten it.

Let me ask you this question: What was the economic result of the devaluation of the franc? Did it cause destitution and unhappiness and kindred disturbances?

Mr. ANDERSON. The process of getting to that lower value, the period when the franc was falling, caused destitution, misery, and distress on a great scale. The process of actual stabilization meant pulling it up from 2 cents to 4 cents, and was accompanied by great joy in France, and a revival of hope and confidence.

Senator BARKLEY. The devaluation occurred prior to the act of the Government which attempted to stabilize it at 4 cents.

Mr. ANDERSON. Yes, sir.

Senator BARKLEY. By processes for which the Government was not responsible.

Mr. ANDERSON. For which the Government was only indirectly responsible. The extravagance of the Government and the war which preceded it did it.

Senator GORE. They had not hammered theirs down deliberately, as we have.

Senator GLASS. What group of people were worst affected by the depreciation of the franc?

Mr. ANDERSON. The typical housewife, having to pay a little more for her herring every day. The masses of the people of France suffered—the workmen suffered.

Senator GLASS. The poorer people.

Mr. ANDERSON. The poorer people; the rich, too. Nobody gained except certain speculators.

Senator GLASS. I know. The rich can afford to suffer.

Senator WAGNER. They do not suffer.

Senator GLASS. They can suffer from now until doomsday; but I am talking about the poorer class of people. They were the people that really suffered.

Mr. ANDERSON. They suffered.

Senator GLASS. Mr. Chairman, can we not adjourn now? It is a great task on some of us to sit here.

The CHAIRMAN. There is one gentleman here who proposes to finish in 15 minutes. We would like to dispose of him.

Senator BULKLEY. I think we have been in session long enough.

Senator GLASS. Let us adjourn until tomorrow.

The CHAIRMAN. Very well. The committee meets tomorrow morning at 10 o'clock to consider the agricultural credit bill, and then at 10:30 we go on with this hearing.

(Whereupon, at 5:10 p.m., Friday, Jan. 19, 1934, the committee adjourned to meet tomorrow, Saturday, Jan. 20, 1934, at 10 a.m.)

CHASE ECONOMIC BULLETIN—AN ANALYSIS OF THE MONEY MARKET

(By Benjamin M. Anderson, Jr., Ph.D., economist of the Chase National Bank of the city of New York)

There is a great deal of bewilderment regarding the recent course of the money market. There need not be. The forces at work are in large part measurable.

Since July of 1927 there has been an immense expansion of bank credit flowing into the securities market, either in the form of bank investments or of collateral loans against securities. There has been a great rise in the price of securities, an immense flotation of new securities, and a growing intensity in speculation in securities.

The movement began shortly after the Federal Reserve banks had reduced their buying rates on acceptances, had reduced their rediscount rates from 4 to 3½ percent, and had begun an immense increase in the purchase of Government securities—an increase of \$320,000,000 taking place in this item alone between July 27 and November 16. During the month of December the Federal Reserve authorities took a neutral attitude toward the money market, and from January down to the present they have been working with steadily increasing vigor toward restraining the movement, first, by selling Government securities, and, second, by raising rediscount rates.

Federal Reserve bank policy since January 1 has been definitely in the right direction. Properly reluctant to use violent measures, they have put the brakes

on cautiously, but with increasing firmness, and on May 28 (the time of writing) there is good reason to believe that they at last have the situation in hand.

Had they been following in the past the policy of holding rediscount rates above market rates, the sales of Government securities which began in January would alone have sufficed to tighten up money adequately and to check the expansion. With Federal Reserve bank rediscount rates well below the market, the selling of Government securities proved for a long time ineffective, since the member banks replaced the funds thus withdrawn from their reserves by a great increase in rediscounts. By May 23, however, the member banks had gone as far in this direction as they could comfortably go, and a position was reached where further sales of Government securities could be very definitely effective.

THE HEART OF THE MONEY MARKET

The total volume of the loans, discounts, and investments of the commercial banks¹ of the United States stands as of April 11, 1928, at approximately \$47,607,000,000, and on the same date the total deposits of these same commercial banks stands at approximately \$44,234,000,000. But neither of these vast figures constitutes the supply of loanable funds in the money market. The loans, discounts, and investments of the banks cannot constitute supply of money. Rather they represent money already supplied, money already loaned and invested. The deposits of the commercial banks do not constitute supply of money for the money market proper. A depositor of a bank may loan his deposit balance to some other individual, but the bank cannot do so. A bank's deposits are liabilities, not assets, and a bank cannot lend its existing deposits. A bank can increase its loans or investments only when it is in a position either to pay out cash or to create a new deposit liability, and its ability to do either of these things depends upon its cash reserves. The circumstances which tend to generate bank expansion, the creation of additional loans, discounts, and investments, and additional bank deposits, are thus bound up in the circumstances governing the volume of bank reserves.

In this we must consider not merely the absolute magnitude of the bank's reserves, but rather the relation between the bank's reserves and its existing deposit liabilities. The law requires an American bank to keep a certain percentage of reserves to its deposit liabilities, 3 percent against time deposits and, in the case of a New York bank, 13 percent against demand deposits. Even if the law made no such requirement, prudence would require the banks to keep a certain amount of cash. When the cash reserves of the banks exceed these requirements, money rates become soft, and it is easy for the banks to expand. When the cash reserves fall below these requirements, banks resist an increase in the total of their loans and investments, expansion is checked and a liquidation may take place.

The heart of our problem is, therefore, focused in a figure much smaller than the \$47,607,000,000 of loans, discounts, and investments, or the \$44,234,000,000 of deposits, mentioned above. The problem for the American money market may be focused in a figure which stood at \$2,432,000,000 on April 11, 1928, namely, the reserve deposits of the member banks with the Federal Reserve banks. There are many other factors at work in the situation, as we shall see, such as gold imports and exports, earmarkings of gold, Federal Reserve bank purchases of Government securities, and other extensions of credit, and various factors on the side of demand for money as well. But all these things are best summed up in the study of the causes affecting the volume of member bank reserves. When thus considered, the problem becomes a measurable problem, and the separate influence of each of the various causes can be isolated and measured.

But the problem may be still further narrowed. Neither in the vast total of \$47,607,000,000 of commercial bank loans, discounts, and investments nor in the smaller, but still vast figure, of \$2,432,000,000 of member bank reserves have we reached the crux of the matter. Not nearly all of this \$2,432,000,000 is available as a basis for bank expansion. Most of it is required to maintain the existing volume of bank credit. Most of it is required reserves. Sometimes all of it is, and sometimes all of it is less than enough. It is only when reserves are excessive than bank expansion can move easily, and the real play of the money market

¹ See Appendix A.

is in the narrow range of perhaps \$50,000,000, plus or minus, around the required reserves. The forces immediately involved in the short-run adjustments of supply and demand are concerned with marginal quantities, and the heart of the problem is to determine what forces have led to comparatively moderate increases or decreases in the volume of reserves.

The tendency during our period is exhibited by the following figures:

<i>Member bank reserves</i>	
July 27, 1927-----	\$2,282,000,000
Nov. 30, 1927-----	2,379,000,000
Feb. 1, 1928-----	2,405,000,000
May 2, 1928-----	2,442,000,000

Our volume of member bank reserves is little over 5 percent of the total deposits of all the commercial banks. If the member bank reserves are the governor of the vast total of bank credit in the country—and during the period under consideration they have been¹—then we need not be surprised at an increase of approximately \$3,000,000,000 in commercial bank deposits, accompanying an increase of over \$150,000,000 in member bank reserves.

<i>Deposits of commercial banks²</i>	
May 2, 1928-----	\$44,238,070,000
July 27, 1927-----	41,158,320,000
Increase-----	3,079,750,000

The explanation of changes in member bank reserves, July 27, 1927–May 2, 1928

It will be convenient to break the large period, July 27, 1927, to May 2, 1928, into four subperiods, each of which has distinct characteristics. The periods are partly arbitrary because of the advantage of having month-end figures for certain of the elements in our calculations.

THE GREAT EXPANSION—JULY 27 TO NOVEMBER 30

The first period, from July 27³ to November 30, 1927, is one during almost the whole of which Federal Reserve bank activities had the effect of making money easy and reserves excessive. The crest of this movement is reached on November 18, so far as the Federal Reserve bank statement is concerned, at which time the open-market purchases of Government securities by the Federal Reserve banks reached their peak of \$704,000,000, an increase of \$320,000,000 from the \$385,000,000 of July 27, and on which their total bills and securities reached \$1,407,000,000, an increase of \$453,000,000 from the \$954,000,000 of July 27, 1927. By the end of November, however, the Federal Reserve banks had reduced their holdings of Government securities to \$548,000,000 again, though an increase of \$110,000,000 in rediscounts by the member banks in the same 2 weeks prevented any considerable decline in total bills and securities. Money rates, which had begun to soften at the beginning of the period, remained soft through to the end of November, and bank expansion moved rapidly through the whole of the period. The following table shows the factors involved in the increase in member bank reserves which took place:

July 27 to November 30, 1927

<i>Member bank reserves:</i>	
July 27, 1927-----	\$2,282,000,000
Nov. 30, 1927-----	2,378,563,000

¹ See Appendix A.

² The next issue of the Chase Economic Bulletin will deal fundamentally with this question.

³ This date seems to represent the turning point in Federal Reserve bank policy. See Chase Economic Bulletin, vol. II, no. 4, pp. 14–15.

CHANGES WHICH INCREASE MEMBER BANK RESERVES

Increase in total bills and securities of Federal Reserve banks:	
1. Increase in rediscounts.....	+78,895,000
2. Increase in open-market purchases:	
a. Increase in bills purchased.....	+185,355,000
b. Increase in Government securities purchased.....	+162,819,000
c. Decrease in other securities.....	-385,000
Total.....	426,684,000
Increase in money outside Treasury (other than gold, gold certificates, and Federal Reserve notes).....	6,000,000
Increase in Federal Reserve bank float.....	10,500,000
Decrease in Government, foreign bank, and other deposits with Federal Reserve banks.....	13,400,000
Total, changes which increase reserves.....	456,584,000
Changes which decrease member-bank reserves.....	348,100,000
Estimated increase in member bank reserves.....	108,484,000
Actual increase in member bank reserves.....	96,585,000

CHANGES WHICH DECREASE MEMBER BANK RESERVES

Increase in money in circulation ⁴	171,000,000
Decrease in monetary gold stock ⁵	129,000,000
Decrease in amount due Federal Reserve banks from foreign banks.....	48,100,000
Total, changes which decrease reserves.....	348,100,000

This table calls for explanation. The Federal Reserve banks, through increased rediscounts and increased open-market purchases, put nearly \$427,000,000 into the member-bank reserves. There was a \$6,000,000 addition to the reserves of the country drawn from types of money not controlled by the Federal Reserve banks, such as national-bank notes, subsidiary silver, etc.

Member-bank reserves were also fed by an increase in the float of the Federal Reserve banks. The Federal Reserve bank float, technically defined, is the difference between a figure found on the asset side of their balance sheet called "Uncollected items" and a figure found on the liability side of their balance sheet called "Deferred availability items." The member banks use the Federal Reserve banks as collecting agencies. They deposit with them checks drawn upon distant points. They do not receive immediate credit for such checks, but, instead, in accordance with a time schedule worked out, receive credit in 1, 2, 3, or more days, depending upon the estimated time required for collection. For example, on November 30, 1927, these figures stood:

Uncollected items.....	\$692,230,000
Deferred availability items.....	637,726,000
Federal Reserve bank float.....	54,504,000

The effort is made to have the uncollected items and the deferred availability items approximately balance, but there is a substantial difference between them in favor of the member banks, which, as it increases, increases the reserve balances of the member banks, and which, as it decreases, reduces the reserve balances of the member banks. The Federal Reserve bank float represents an extension of Federal Reserve bank credit to the market.

Explanation may also be needed of the item "Government, foreign bank, and other deposits with the Federal Reserve banks." Deposits of the Federal Reserve banks thus held are not reserves of American commercial banks, and bank expansion cannot be built upon them. When the Government transfers its deposits from national banks to the Federal Reserve banks, it withdraws funds from bank reserves, and when it transfers its deposits from the Federal Reserve banks to the national banks, it increases the total reserves in the

⁴ Estimated for July 27.

⁵ July 31 to Nov. 30, 1927.

money market. The same is true of foreign banks and of the "other (non-banking) depositors" with the Federal Reserve banks.

Among the changes which decreased member bank reserves during this period, we note first the increase in money in circulation. Hand-to-hand cash is supplied by the commercial banks to the public. When public demand for hand-to-hand cash increases, the commercial banks are usually obliged to go to the Federal Reserve banks to get it, and of course must draw against their deposit balances with the Federal Reserve banks in the process. Conversely, when money in circulation is excessive, it returns to the commercial banks as individual depositors turn in unneeded cash, building up their own deposits, and the commercial banks promptly turn in the excess to the Federal Reserve banks, replenishing their reserve balances.*

A second factor which decreased member bank reserves during this period is a decrease in the monetary gold stock of the country of \$129,000,000. The figure for gold monetary stock, published once a month, sums up the results of all the forces operating upon our monetary gold supply. These forces are gold exports, gold imports, production of gold in the United States and Alaska, consumption of gold in the arts and industries, earmarking of gold, and release of gold from earmark. Not all of these can be measured separately on the basis of current data available to the writer. The annual difference between domestic production and domestic consumption of gold in recent years is small, \$10,000,000 a year, approximately.

From July 30 to November 30, gold under earmark at the Federal Reserve banks increased from \$114,000,000 to \$191,000,000. Earmarked gold is gold which the Federal Reserve banks hold merely as custodian, subject to the orders of their customers, usually foreign banks. It is as much withdrawn from the American money market as it would be if it were already exported. Gold released from earmark is as much returned to the American money market as it would be if it were newly imported. From the end of July to the end of November, the country lost, through the net excesses of exports over imports, \$67,000,000 of gold. We cannot, however, add the gold lost through earmarking and the gold lost through exports to make a total of gold lost, because we do not know how much of the gold exported had already been put under earmark, and to count it as lost, first through earmarking and second through export, would involve double counting. Our figure, however, for the decrease in the gold monetary stock straightens all this out, and shows a net loss of gold from all causes of \$129,000,000.

The third change among those which decreased member-bank reserves is a special item which does not recur in the tables in this bulletin. It represents a decrease in a special form of Federal Reserve bank credit, credit extended to foreign banks, probably in the form of deposits with them.⁷ This item, which had been less than \$700,000 down to June 15, 1927, suddenly rose sharply to \$48,719,000 on July 27, 1927, but had dropped again to approximately \$500,000 by November 23, 1927.

Taking account of all these various factors in our table, we estimated that the reserves of the member banks should have increased \$108,484,000 between July 27, 1927, and November 30, 1927. The actual increase reported in the consolidated balance sheets of the Federal Reserve banks between these dates is \$96,535,000, showing a difference between the reserves as calculated and the reserves as actually reported of \$11,949,000. This represents a fairly close convergence between indirect calculation and actually reported figures. It will be observed that our figures for gold and for money outside the Treasury are

* The figure for money in circulation, as reported monthly by the United States Treasury and by the Federal Reserve Board, covers all American money outside the Treasury and outside the Federal Reserve banks. It includes the vault cash in the commercial banks. It includes the money in the pockets of the people. It includes American money in foreign countries. It gives us a figure, therefore, which enables us to sum up a good many otherwise unmeasurable influences at work upon the money market. We need not consider separately exports and imports of American currency, other than gold, in our dealings with foreign countries, which are particularly difficult to measure. We need not consider separately hoarding by individuals or unusual accumulations of vault cash by banks in districts where there is danger of "runs" on banks. Whether or not a change in the "volume of money in circulation" takes place through increase or decrease of commercial activity, import or export of American currency from or to foreign countries, hoarding, or even outright destruction, the only way in which these changes can affect member-bank reserves is through an increase or a decrease in the total figure, and, measuring changes in the total figure, we may correctly sum up all the factors at work.

⁷ This item first appeared in the statement of the Federal Reserve banks in September 1925. At the same time the caption "Total Earning Assets" which they had formerly used to describe the total of their discounts, and open-market purchases of Government securities, other securities, and bills was changed to "Total Bills and Securities."

month-end figures, whereas our July figures for the Federal Reserve banks are 3 days away from the end of the month. Had there been large changes in the month of July in the gold monetary stock and had these changes been concentrated within these 3 days, our results could have been thrown out very widely. Fortunately for this computation, there were no net changes through earmarking in the month of July, and the net change through export and import was only \$9,000,000.

It was necessary, however, to recompute the figure for money in circulation in view of the fact that the month-end was also a summer week-end, and the difference between money in circulation at the week-end and money in circulation on Wednesday, July 27, was approximately \$65,000,000. Discrepancies of even a single day or part of a day, however, could make calculations of this kind vary substantially, and our results are close enough to the actually reported fact to justify us in the belief that they have covered all the important variables involved.

The period from the end of July to the end of November was characterized by the extraordinarily rapid growth of general bank credit. The deposits of the reporting member banks (representing 47 percent of the total of all commercial bank loans, discounts and investments) increased from \$19,506,000,000 on July 27 to \$20,438,000,000 on November 30. Their total loans, discounts and investments rose between the same dates from \$20,479,000,000 to \$21,544,000,000—an increase of \$1,065,000,000. Of this increase \$209,000,000 was taken by the seasonal rise in the so-called "commercial loans" or the "all other loans and discounts" of these banks, while the rest, an amount in excess of \$800,000,000, went to the securities market either in the form of direct bank investments in securities or in the form of collateral loans against securities.

Reporting member banks

[In millions of dollars]

	Deposits	Total loans, discounts, and invest- ments	Loans on securities	All other loans and discounts	Investment in securi- ties	Loans on securities plus invest- ments
July 27, 1927.....	19,506	20,479	5,929	8,559	5,992	11,921
Nov. 30, 1927.....	20,438	21,544	6,408	8,806	6,329	12,737

Brokers' loans on the New York Stock Exchange, as reported by the Federal Reserve authorities, increased from \$3,141,000,000 on July 27, 1927, to \$3,511,000,000 on November 30, 1927, and, as reported by the New York Stock Exchange,¹ increased from \$3,642,000,000 on July 30 to \$4,092,000,000 on November 30.

The period from the end of July to the end of November, despite the October break, was characterized by rapidly rising prices of securities. The New York Times average of 50 stocks stood at 171.48 on July 27 and at 180.65 on November 30, while the Standard Statistics list of 21 rails and 197 industrials stood at 177.7 on July 30 and at 193 on December 3.

THE TRANSITION PERIOD—NOVEMBER 30, 1927, TO FEBRUARY 1, 1928

There are certain very interesting and spectacular figures connected with the money market around the year-end 1927, but, for the purposes of understanding the main episodes of the money market we are here considering, it is best to ignore these, as expansion takes place at every year-end in connection with the Christmas trade and the year-end settlements, and it is well to avoid confusing our analysis by a study of them. Our next table covers, therefore, the period November 30, 1927, to February 1, 1928. This period shows an estimated increase of member bank reserves of \$22,157,000 as compared with an actual increase of \$26,110,000. The difference between the estimated figure and the actual figure is \$3,953,000.²

¹ The Federal Reserve authorities can report only those loans made through the New York City member banks. The stock-exchange figure is, therefore, larger than the Federal Reserve figure.

² This is a very close result. The error in our next table, from Feb. 1, 1928, to Feb. 29, 1928, is \$2,203,000. But these two errors are in opposite directions, and had two periods been calculated together would have offset one another, giving us a discrepancy of only \$1,750,000.

To get this small change in reserves, however, an extraordinarily large volume of shifting about was required. Two hundred and seventy-five million dollars of money returning from circulation more than offset the \$78,000,000 loss of gold and the \$145,000,000 decline in Federal Reserve bank credit, as well as the increase in Government, foreign bank, and other deposits, the decrease in the Federal Reserve bank float, and the decrease in the money outside the Treasury. During the first period, Federal Reserve bank credit expanded so greatly that it more than offset the great increase in money in circulation and the great decrease in the gold stock. During the second period, Federal Reserve bank credit did not contract enough to offset the return of money from circulation. None the less, there is evidence of a definite reversal of Federal Reserve bank policy during this period, the most significant point being in the decrease of Government securities purchased. The Federal Reserve banks are clearly now holding back and trying to check the expansion.

Nov. 30, 1927-Feb. 1, 1928

[In thousands of dollars]

Member bank reserves November 30, 1927-----	2,378,563
Member bank reserves February 1, 1928-----	2,404,673

CHANGES WHICH INCREASE MEMBER BANK RESERVES

Decrease in money in circulation ¹⁰ -----	275,000
Less-----	252,843
Estimated increase in member bank reserves-----	22,157
Actual increase in member bank reserves-----	26,110

CHANGES WHICH DECREASE MEMBER BANK RESERVES

Decrease in monetary gold stock ¹⁰ -----	78,000
Decrease in total bills and securities of Federal Reserve banks:	
1. Decrease in rediscounts-----	-53,593
2. Decrease in open market purchases:	
a. Increase in bills purchased-----	+22,653
b. Decrease in Government securities purchased-----	-114,174
c. Decrease in other securities-----	-415
Total-----	145,529
Increase in Government, foreign bank, and other deposits-----	12,622
Decrease in Federal Reserve bank float-----	7,287
Decrease in money outside the Treasury (other than gold, gold certificates, and Federal Reserve notes) ¹⁰ -----	9,405
Total-----	252,843

The Federal Reserve banks have moreover, taken other steps in this direction, as shown by the increase in the rates for 90-day acceptances (which are dominated by the buying rates of the Federal Reserve banks) from $3\frac{1}{4}$ at 3% in late December to $3\frac{1}{2}$ at $3\frac{5}{8}$ toward the end of January. The end of the period, moreover, begins the movement upward of the rediscount rates from $3\frac{1}{2}$ to 4 per cent, beginning with Chicago on January 25 and Richmond on January 27, followed by New York on February 2.¹¹

Money rates stiffen definitely between November 30 and February 1. Call money had been $3\frac{1}{2}$ percent through November, 1927, while the January range was well above this, though a down turn toward the end of the month showed some days with $3\frac{1}{2}$ percent money again, the range being $3\frac{1}{2}$ to $4\frac{1}{2}$ percent in the final week. Time money on the Stock Exchange showed also a definite stiffening. It stood at 4 at $4\frac{1}{4}$ percent in November, and it was $4\frac{3}{8}$ at $4\frac{1}{2}$ percent at the end of January.

But the efforts so far were indecisive. Money remained easy, bank expansion went on, and the securities market rose.

¹⁰ Nov. 30, 1927-Jan. 31, 1928.

¹¹ San Francisco, Feb. 4; Minneapolis, Feb. 7; Boston, Feb. 8; Dallas, Feb. 8; Kansas City, Feb. 10; Atlanta, Feb. 11; Philadelphia, Feb. 16; St. Louis, Feb. 21; Cleveland, Mar. 1.

Reporting member banks

[In millions of dollars]

Date	Deposits	Total loans, discounts, and investments	Loans on securities	All other loans and discounts	Investment in securities	Loans on securities plus investments
Nov. 30, 1927.....	20,438	21,544	6,408	8,806	6,329	12,737
Feb. 1, 1928.....	20,590	21,789	6,677	8,648	6,564	13,241

Brokers' loans

[In millions of dollars]

Date	As reported by New York Stock Exchange	Date	As reported by member banks of New York City
Nov. 30, 1927.....	4,092	Nov. 30, 1927	3,511
Jan. 31, 1928.....	4,420	Feb. 1, 1928	3,816

The credit movement of this period is particularly favorable to the securities market. The so-called "commercial loans" of the reporting member banks actually declined by \$258,000,000, while the funds employed in the securities market, either in the form of direct investment in securities or in the form of collateral loans against securities, increased \$504,000,000. The stock market, rising in December, receded in January, and stood at the end of January a little above the level of the end of November.

The Federal Reserve authorities proceed to take more vigorous measures, and our next period, the month of February, shows a measure of success.

A MONTH OF RECESSION—FEBRUARY 1, 1928, TO FEBRUARY 29, 1928

The following table tells the story of the month:

February 1, 1928 to February 29, 1928

[In thousands of dollars]

Member bank reserves:	
February 1, 1928.....	2,404,673
February 29, 1928.....	2,374,515

CHANGES WHICH INCREASE MEMBER BANK RESERVES

Increase in total bills and securities held by Federal Reserve banks:	
1. Increase in rediscounts.....	+69,136
2. Decrease in open-market purchases:	
a. Decrease in bills purchased.....	-33,634
b. Decrease in Government securities purchased.....	-26,059
c. Increase in other securities.....	+500
	9,943
Increase in money outside Treasury (other than gold, gold certificates, and Federal Reserve notes) ¹²	2,180
Total.....	12,123

CHANGES WHICH DECREASE MEMBER BANK RESERVES

[In thousands of dollars]

Increase in money in circulation ¹²	13,000
Decrease in monetary gold stock ¹²	11,000
Increase in Government foreign bank and other deposits.....	3,861
Decrease in Federal Reserve bank float.....	12,217
Total.....	40,078
Less.....	12,123
Estimated decrease in reserves of member banks.....	27,955
Actual decrease in reserves of member banks.....	30,158

¹² Jan. 31, 1928 to Feb. 29, 1928.

The month of February shows a definite down turn in the reserves of member banks which, according to our estimates, should have been \$28,000,000 and which actually was \$30,000,000. Despite the increased rediscount rates, member banks increased their borrowings to offset other adverse influences on the volume of their reserves, but, on the whole, the reserves moved downward. Commercial bank expansion was checked and reversed during the month of February, as shown by the following figures:

Reporting member banks

[In millions of dollars]

	Deposits	Total loans, dis- counts, and in- vestments	Loans on securities	All other loans and discounts	Invest- ment in securities	Loans on securities plus in- vestments
Feb. 1, 1928.....	20,590	21,789	6,677	8,548	6,564	13,241
Feb. 29, 1928.....	20,405	21,700	6,471	8,672	6,558	13,029

Deposits dropped \$185,000,000. Loans, discounts, and investments dropped \$89,000,000. Commercial loans increased \$124,000,000, but the investments in securities and the collateral loans against securities dropped \$212,000,000. Money was firmer in February than in January. Call money ranged from 4 percent to 5 percent; time money stiffened one eighth of 1 percent. The stock market dipped sharply, the Times average falling from 179.35 on February 1 to a low of 174.12 on February 20, ending the month at 177.26, while the Standard Statistics average, opening the month at 193.4, fell to a low point of 188.6, and closed the month at 190.6 (Feb. 26).

Brokers' loans on the New York Stock Exchange, as reported by the stock exchange authorities, dropped from \$4,420,000,000 on January 31 to \$4,323,000,000 on February 29 and, as reported by the New York Federal Reserve Bank, dropped from \$3,816,000,000 on February 1 to \$3,722,000,000 on February 29.

A new phase—demand overcomes restraints—Feb. 29 to May 2

[In thousands of dollars]

Member bank reserves Feb. 29, 1928.....	2,374,515
Member bank reserves May 2, 1928.....	2,441,860

CHANGES WHICH INCREASE MEMBER BANK RESERVES

Increase in total bills and securities held by Federal Reserve banks:

1. Increase in rediscounts.....	+264,486
2. Decrease in open market purchases:	
(a) Increase in bills purchased.....	+19,342
(d) Decrease in Government securities purchased.....	—115,300
(e) Decrease in other securities.....	—10
	168,518

Increase in money outside Treasury (other than gold, gold certificates, and Federal Reserve notes)¹³..... 6,600

Increase in Federal Reserve bank float..... 21,391

Total..... 196,509

Less..... 113,571

Estimated increase in member bank reserves..... 82,938

Actual increase in member bank reserves..... 67,345

CHANGES WHICH DECREASE MEMBER BANK RESERVES

[In thousands of dollars]

Increase in money in circulation¹³..... 18,000

Decrease in monetary gold stock¹⁴..... 95,000

Increase in Government, foreign, bank, and other deposits..... 571

Total..... 113,571

¹³ Estimated for May 2.

¹⁴ Feb. 29, 1928, to Apr. 30, 1928.

In this period a new and startling phase opens. The country continues to lose gold and on a grand scale, the decrease in the monetary gold stock being \$95,000,000. The Federal Reserve banks strive valiantly to reduce reserves by selling Government securities, \$115,300,000 being sold in the 2 months, March and April. Money in circulation increases by \$18,000,000, taking money out of the reserves, but all of these factors are overcome, primarily by a great increase in rediscounts at the Federal Reserve banks, with the net result that there is an actual increase in member bank reserves of \$67,345,000 (our estimated increase being \$82,933,000).¹⁵

The new phase in the situation originates on the demand side rather than on the supply side in the money market situation. Supply increases, but increases in response to a strong acceleration in demand, a radical reversal of the situation as it developed last autumn. When the great expansion began at the end of July 1927, the markets would use more money, but only at a concession in price. Lower rates would tempt increased borrowing, but it was necessary to make lower rates in order to expand bank credit. Since the end of February, however, there has been an immense intensification in the speculative fever of the American people, aroused during the preceding period of cheap money, and concentrated upon the stock market, and they have been, apparently, prepared to bid whatever was necessary to bring forth the desired increase in loan funds to enable them to make their speculative purchases of securities. With the sales of securities by the Federal Reserve banks and the withdrawals of gold from the market, money rates stiffened, but bank expansion went on, borrowers were eager and confident, and higher rates induced the banks to borrow enough, not merely to replenish their reserves, but, as we have seen, actually to increase them. The demand for money was actively increasing and, instead of taking the increased supply of bank funds only at concessions in money rates, the market took increasing amounts at rising money rates.

There is always a temptation for banks to rediscount in order to relend at a profit when the rediscount rates at the Federal Reserve banks are below the market rates of interest. The principle of European banks of issue has been to keep their rediscount rates above the market for bills (the only kind of paper they rediscount), and when loans are made against government bonds, the practice is to charge a rate still higher than the rediscount rate on commercial bills. When this practice holds, the market resorts to borrowing at the bank of issue only when it has to, and it is fairly easy for the bank of issue to regulate the market by its open-market purchases. In the United States, despite the temptation to rediscount for the purpose of relending at a profit, our large banks have developed a tradition, since the unfortunate experiences of 1920, that they will rediscount only for the purpose of replenishing reserves, and not for the purpose of creating new reserves to lend at a profit. It has, thus, usually been possible for the Federal Reserve banks to influence the market very greatly merely by buying and selling Government securities. But with the eager demand for money for speculative purposes, which the months of March and April exhibited, it is clear that to some extent this tradition gave way and that the member banks as a whole borrowed, not merely enough to maintain their reserves, but actually to increase them by over \$67,000,000.

Reporting member banks

(In millions of dollars)

	Deposits	Total loans, discounts, and invest- ments	Loans on securities	All other loans and discounts	Investment in securi- ties	Loans on securities plus in- vestments
Feb. 29 1928.....	20,405	21,700	6,471	8,672	6,558	13,029
May 2, 1928.....	20,966	22,568	7,009	8,942	6,637	13,646

¹⁵ The discrepancy between estimated reserves and actual reserves is a little over \$15,500,000, which might easily be eliminated if we had a figure for the gold monetary stock for May 2 instead of for Apr. 30. Gold movements were very heavy in the first week of May, exports through the port of New York in that week totaling \$31,825,000.

Commercial bank expansion moved rapidly during these 2 months. Total loans, discounts, and investments moved up \$888,000,000. Of this, the so-called "commercial loans"¹⁶ absorbed \$270,000,000, while \$617,000,000 went to the securities market, either in the form of collateral loans or of direct bank investments.

Brokers' loans on the stock exchange rose in even greater measure. As reported by the stock exchange authorities, the increase was from \$4,823,000,000 on February 29 to \$4,908,000,000 on April 30, while, as reported by the Federal Reserve bank, the increase was from \$3,722,000,000 on February 29 to \$4,282,000,000 on May 2.

The impetus in the stock market has been altogether extraordinary. Almost without a break the averages swung toward new and undreamed-of levels, the rise in the Times average being from 177.26 on February 29 to 195.75 on May 2, and in the Standard Statistics average from 190.6 on February 25 to 223 on May 4.

The causation seems clearly reversed in our fourth period from that of our first period. In our first period, July 27–November 30, 1927, excessive reserves generate easy money and bank expansion, which the speculators use in a relatively languid way to add 9.17 points to the stock market averages. In our fourth period, covering the months of March and April, the speculators enthusiastically add 18.5 points to the stock market averages, and in the course of it evoke, despite the resistance of the Federal Reserve authorities, a further bank expansion at steadily rising rates of interest.

MAY 1928—THE GRIP TIGHTENS

It will be impossible before this bulletin is published to obtain all the figures needed for a complete calculation of the causes of changes in member bank reserves in May, the one really impossible figure being that for the monetary stock of gold. Figures for money in circulation, though most easily obtained for the month ends, can be calculated for the dates of any Federal Reserve statement, and other elements in the calculation are also obtainable. May has shown, however, a significant development in the further tightening of money. Beginning with April 20, 9 of the 12 Federal Reserve banks have raised their discount rates to 4½ percent.¹⁷

The following figures show the main movements in the Federal Reserve bank balance sheets since the 1st of May:

[In millions of dollars]

	Member bank re- serves	Redis- counts	Open market purchases of bills	Open market purchases of govern- ment se- curities	Total bills and securi- ties	Total gold re- serves	Federal reserve notes in circula- tion
May 2.....	2,442	757	363	292	1,413	2,709	1,591
May 9.....	2,428	777	365	277	1,421	2,690	1,591
May 16.....	2,382	807	347	282	1,418	2,641	1,583
May 23.....	2,370	847	331	230	1,410	2,634	1,579

This table, though ignoring several of the elements of our calculations, offers, on the face of things, a pretty complete explanation of the decline of \$72,000,000 in member bank reserves between May 2 and May 23; gold reserves, —75 millions; Government securities, —62 millions; open market bills, —32 millions; rediscounts, + 90 millions—net result, —79 millions. Gold continues to go out on a great scale, and the month of May may easily prove a record month in this respect. The Federal Reserve banks have continued to sell Government securities. Rediscounts had risen on May 23 to \$847,412,000, a figure unprecedented even at year ends since 1923, and a figure which the member banks would undoubtedly like to have much lower. Call money has held at 6 percent from May 18 to May 28, and on that day moved up to 6½ percent. The cutting of member bank reserves by \$72,000,000 between May 2 and May 23 is the really significant measure of the success of the policy of restraint.

¹⁶ The Commercial and Financial Chronicle (May 19, p. 3014) attributes this to speculation in grain and cotton, rather than to commercial expansion.

¹⁷ Boston, Apr. 20; Chicago, Apr. 20; St. Louis, Apr. 23; Richmond, Apr. 24; Minneapolis, Apr. 25; Dallas, May 7; Philadelphia, May 16; New York, May 17; Cleveland, May 25.

THE EFFECTS OF CHEAP MONEY AND BANK EXPANSION ON THE BUSINESS SITUATION

The episode described in the foregoing pages, from the end of July 1927, to the early part of May 1928, is merely an intensification of a general movement in bank credit which has been going on since early 1922. There has been only one real interruption in the process from that time to the present, the one interruption coming in the year 1923. Previous numbers of the Chase Economic Bulletin have dealt with this.²⁸ The following tables exhibit the extent of this expansion since June 30, 1922:

Deposits of commercial banks¹

Apr. 11, 1928.....	\$44,234,000,000
June 30, 1922.....	30,690,000,000
Increase.....	13,544,000,000

Loans, discounts, and investments of commercial banks¹

Apr. 11, 1928.....	\$47,607,000,000
June 30, 1922.....	33,095,000,000
Increase.....	14,512,000,000

In judging the effects of the recent intense period of cheap money and bank expansion upon the business situation, we shall do best to look upon it as merely a phase and continuation of the longer movement.

The view that cheap money and bank expansion will lead merchants to increase their borrowings for the purchase of goods, and will lead manufacturers to increase their borrowings for financing an increased volume of "work in process", has found little to justify it in our recent experience. There appears to be a strong feeling in Great Britain that even moderate rises in interest rates will check business, and that even moderate declines in interest rates will stimulate business, through their effect upon this kind of borrowing. It is to be observed, however, that American experience with cheap money during the last few years has been that such borrowing has been little, if at all, influenced by it, and that German experience with high money rates in the last few years has been that such borrowing increases sharply, despite high money rates, whenever a market is in sight, and whenever commercial and manufacturing profits are to be gained by means of such borrowing.

Borrowing by merchants and manufacturers in the United States from the banks appears actually to have declined in the last few years. This is due partly to the practice of hand-to-mouth buying and moderate inventories, which not even easy money could overcome. It is also due partly to the fact that business corporations have done a great deal of permanent financing in the cheap money period, which has lessened their dependence upon the banks.

The indirect effect of cheap money and bank expansion upon business has, however, been very marked.

The most conspicuous effect of cheap money and bank expansion has been in the speculative rise in the prices of securities and real estate, but this rise has in itself had a very marked effect upon the volume of consumer demand. The total volume of profits from capital appreciation, which the last few years have brought forth, has been very great. Part of these profits has been reinvested, but a very considerable part has undoubtedly been spent in current consumption, increasing the volume of consumer demand substantially above what it would be if securities and real estate ceased to rise.

In the second place, the bank expansion has facilitated greatly the growth of installment buying, again increasing, during the period of the expansion, the aggregate volume of consumer demand.

In the third place, the period of bank expansion has greatly intensified the rate of new security issues. In part this has been for refinancing. Every borrower who was in a position to do so has paid off old bonds, which bear high rates of interest, and has replaced them with new bonds bearing low rates of interest. But, wholly apart from this refinancing, there has been an extraordinary expansion in the volume of new securities issued. The last year during which no bank expansion took place was 1923, and the volume of new securities publicly placed in the United States in that year (refunding excluded) was \$4,304,000,000. In the year 1927, a year of very rapid bank

²⁸ Vol. III, no. 1; vol. IV, no. 3; vol. V, no. 3; vol. VI, no. 3; vol. VII, no. 4.

¹ See appendix A.

expansion, the total volume of new securities placed (refunding excluded) was \$7,735,000,000. Doubtless there was an increase between 1923 and 1927 in ordinary investors' savings, but it would be hard to contend that the increase was so great as the difference between these figures would indicate. The major part of the difference must be due to the fact that 1923 was a year with almost no bank expansion and 1927 a year of great bank expansion.

The issue of these new securities stimulated demand in a number of directions, the two most conspicuous markets affected being the building trade and the export market. Despite the restrictions on our imports and despite the growing burden of interest payments which foreign countries must make to the United States, our exports have held up fairly well by virtue of an ever-growing volume of foreign securities placed in the United States.¹⁹ And thus our bank expansion has deferred the need for fundamental dealing with the export problem.

Another remarkable effect has been the great increase in activity on the part of financial middlemen and brokers, with a great increase in the volume of securities transactions, a great rise in the prices of seats in the various exchanges, and a great multiplication in the number of finance companies, houses issuing and marketing securities, and investment trusts. The shifting and readjustment of investments, which the credit expansion has involved, has made work for this growing army of financial middlemen, and the unusual income from their activities has made a not negligible addition to the total of consumer demand. With a more normal money market, the volume of these activities would be curtailed.

INVESTMENT TRUSTS

It is quite safe to say that in the absence of the great expansion of credit which has taken place, the investment trust movement would have developed much less rapidly than has been the case. Had the new capital coming upon the market been only the ordinary volume of investors' savings, there would have been, of course, a much severer competition for investors' money, higher return to investors, and much less readiness on the part of investors to turn to new types of investment. There would have been much more critical scrutiny by investors of the types of securities offered them. But in a situation where investors have had not merely the problem of placing their current savings, but also the frequent problem of replacing old investments paid off or purchasing new securities to replace those sold at a profit (together with part of the profit), the demand for new securities has grown rapidly and has been less critical than would otherwise have been the case. Under these circumstances, it has been possible, not merely for strong and conservatively managed investment trusts to place their securities readily with investors, but also for other investment trusts, whose management was not so surely experienced or so certainly conservative, to make large headway.

Year	Exports	Imports	Excess of exports	Foreign securities ¹
1921.....	4,485,031	2,509,148	1,975,883	526,517
1922.....	3,831,777	3,112,747	719,030	631,211
1923.....	4,167,493	3,792,066	375,427	267,085
1924.....	4,590,984	3,609,963	981,021	996,570
1925.....	4,909,848	4,226,589	683,259	1,086,161
1926.....	4,808,680	4,430,888	377,772	1,145,100
1927.....	4,864,806	4,184,378	680,428	1,555,232
1927 (4 months).....	1,616,187	1,421,782	194,405	531,035
1928 (4 months).....	1,573,366	1,415,922	157,444	483,189

¹ Refunding excluded.

In the best of times and under the most favorable circumstances, it is a difficult and unenviable undertaking to invest the money of other people to their satisfaction. It has been a particularly trying problem in recent years, and the very circumstances which have made easy the financing of investment trusts have also made difficult the problem of the management of investment trusts in the selection of securities which would give adequate yield and be satisfactory in other respects as well.

¹⁹ Exports and imports of the United States and foreign securities placed in the United States (1921-28) (in thousands of dollars):

The rapid rise of the investment trust movement, moreover, has prevented the accumulation of the experience in investment trust management which would justify us in looking with unmixed satisfaction upon the extent of the development. The great movement has taken place on a rising market, and not all of the existing investment trusts in the United States have had an adequate experience with falling markets or periods of monetary tension. We have imported a British idea and made a large scale application of it without first trying it out over a relatively long period of time under American conditions.

One curious development, showing the difficulties of the problem, has been a certain amount of buying by one investment trust of the stock of another.

General conclusions regarding the investment-trust development are not justified at the present time. There are undoubtedly strong and well-managed investment trusts whose securities are in every way worthy of public confidence. But it is perfectly safe to state that the investing public has not been sufficiently critical of the general movement and that a more rigorous study of the financial set-up, the policies, the management, and the investment lists of individual investment trusts, together with an analysis of the nature and sources of their profits, is to be recommended.

Investors should in particular know whether or not it is the practice of a given investment trust to count as current profits only the income from securities held, or whether its practice is to count also the profits which come from the sale of securities on a rising market. The experience of British investment trusts would seem to prove that profits made from the sale of securities should not be counted as current income, but rather should be set aside as reserves to offset losses which may come in bad years, and that the holder of the stock of the investment trust should expect to gain from these profits only indirectly as over a period of years the gains exceed losses and the current return of the investment trust increases through the growth of its invested funds. The present practice of investment trusts is not uniform with reference to this point.²⁰

APPENDIX A

DEPOSITS AND LOANS, DISCOUNTS AND INVESTMENTS OF ALL COMMERCIAL BANKS

The computations for all commercial banks are made on the basis of the figures for the reporting member banks. The figures for all State and National banks and trust companies are available only once a year, as of June 30. These figures have been found to bear, however, a surprisingly constant ratio to the corresponding figures for the reporting member banks, which are available once a week. Deposits of the reporting member banks are 47.39 percent of the total deposits, and loans, discounts and investments, of reporting member banks are 46.94 percent of the total. It is interesting to note that virtually all of the expansion of deposits, of our period, July 1927 to May 1928, took place between July 27 and January 4, the figures being:

All State and National banks, and trust companies

Loans, discounts, and investments:

Jan. 4, 1928.....	\$46,982,062,000
July 27, 1927.....	43,620,798,000
Increase.....	3,361,264,000

Deposits:

Jan. 4, 1928.....	44,275,672,000
July 27, 1927.....	41,158,320,000
Increase.....	3,117,352,000

Member bank reserves:

Jan. 4, 1928.....	2,486,000,000
July 27, 1927.....	2,282,000,000

Since April 11 there has been a great growth in loans, discounts and investments of reporting member banks without a proportionate increase in deposits, and I hesitate to apply the customary ratio of increase for loans, discounts and investments to the total figures for dates later than April 11.

²⁰There are 3 main types of investment trusts: (1) Where the trust issues securities against a fixed body of investments; (2) where the management of the trust has a limited discretion in changing its investments; and (3) where the management has unlimited discretion. The importance of management varies, of course, in each of these cases, but the need for the investor's study of the details of the set-up, as distinguished from his study of management, increases as managerial discretion is reduced.

APPENDIX B

Changes in reserves July 27, 1927-May 2, 1928

[in thousands of dollars]

Member bank reserves:	
July 27, 1927.....	2,282,000
May 2, 1928.....	2,442,000

CHANGES WHICH INCREASE MEMBER BANK RESERVES

Decrease in money in circulation ²²	73,000
Increase in money outside Treasury ²³ (other than gold, gold certificates, and Federal Reserve notes).....	5,865
Increase in Federal Reserve bank float.....	12,348

Increase in total bills and securities of Federal Reserve banks:	
1. Increase in rediscounts.....	+358,924
2. Increase in open-market purchases:	
a. Increase in bills purchased.....	+193,716
b. Decrease in Government securities purchased.....	-92,714
c. Decrease in other securities purchased.....	-310

Total..... 459,616

Grand total..... 550,829

Less..... 365,120

Estimated ²³ increase in member bank reserves.....	185,709
Actual increase in member bank reserves.....	160,000

CHANGES WHICH DECREASE MEMBER BANK RESERVES

Decrease in monetary gold stock ²¹	313,000
Increase in Government, foreign bank, and other deposits.....	3,971

Decrease in amount due Federal reserve banks from foreign banks..... 48,149

Total..... 365,120

Appendix C.—Data used in computing changes in member bank reserves

[in thousands of dollars]

	July 27, 1927	Nov. 30, 1927	Feb. 1, 1927	Feb. 29, 1928	May 2, 1928
Monetary gold stock ¹	4,580,000	4,451,000	4,373,000	4,362,000	4,267,000
Money in circulation ²	4,781,000	4,952,000	4,677,000	4,690,000	4,708,000
Money outside the Treasury ³ other than gold, gold certificates, Federal Reserve notes and minor coin ³	1,854,006	1,860,287	1,850,890	1,853,099	1,859,000
Government, foreign bank, and other deposits with Federal Reserve banks.....	47,990	34,607	47,229	51,090	51,561
Federal Reserve bank float.....	44,043	54,504	47,217	35,000	56,391
Total bills and securities held by Federal Reserve banks.....	953,831	1,380,515	1,234,985	1,244,929	1,413,447
Total rediscounts.....	398,130	477,025	423,432	492,588	757,054
Bills purchased in open market.....	169,885	354,740	377,393	343,759	363,101
Government securities purchased.....	385,016	547,835	433,661	407,602	292,302
Due from foreign banks to Federal Reserve banks.....	48,719	566	568	567	570
Member bank reserves with Federal Reserve banks.....	2,282,028	2,378,563	2,404,673	2,374,515	2,441,860

¹ End of month figures.² Estimated for July 27, 1927, and May 2, 1928.³ "Minor coin" means nickel and copper coin. The amount changes slowly. Data for this item are hard to obtain prior to 1928, and to make the figures comparable, it is ignored throughout.²¹ July 31, 1927, to Apr. 30, 1928.²² Estimated for July 27 and May 2.²³ The discrepancy of \$26,000,000 between estimated and actual reserves is largely due to the fact that not all figures are of the same date at either end of the period. Large gold exports are known to have taken place between Apr. 30, 1928, and May 6, 1928 (\$32,000,000), and a substantial part of the discrepancy might be removed if we had a figure for gold monetary stock as of May 2.

APPENDIX D.—Money rates at New York

Week ending	Call loans	60-90 day time loans	6-month time loans	Commercial paper, 4-6 months	Prime bankers acceptances, 90 days	New York Federal Reserve Bank rediscount rate
July 30, 1927.....	3½ at 4.....	4½ at 4½.....	4½ at 4½.....	4 at 4¼.....	3½ at 3½.....	4.....
Aug. 20, 1927.....	3½ at 3½.....	3½ at 4½.....	4¼ at 4½.....	4.....	3½ at 3½.....	3½.....
Oct. 15, 1927.....	4 at 4½.....	4 at 4½.....	4¼ at 4½.....	4.....	3½ at 3½.....	3½.....
Nov. 26, 1927.....	3½.....	4 at 4½.....	4½ at 4½.....	4.....	3½ at 3½.....	3½.....
Jan. 7, 1928.....	4 at 5½.....	4½ at 4½.....	4½ at 4½.....	3¾ at 4.....	3½ at 3½.....	3½.....
Jan. 14, 1928.....	4 at 4½.....	4½ at 4½.....	4¼ at 4½.....	3¾ at 4.....	3½ at 3½.....	3½.....
Jan. 28, 1928.....	3½ at 4½.....	4½ at 4½.....	4½ at 4½.....	4.....	3½ at 3½.....	3½.....
Mar. 3, 1928.....	4½ at 4½.....	4½ at 4½.....	4½ at 4½.....	4.....	3½ at 3½.....	4.....
Apr. 28, 1928.....	4½ at 5.....	5.....	5.....	4½.....	3½ at 4.....	4.....
May 5, 1928.....	4½ at 6.....	4½ at 5.....	4½ at 5.....	4½.....	3½ at 4.....	4.....
May 23, 1928 ¹	6 at 6½.....	5½ at 5½.....	5½.....	4½.....	4½.....	4½.....

¹ Figures for the day only.

CHASE ECONOMIC BULLETIN—BANK EXPANSION VERSUS SAVINGS

By Benjamin M. Anderson, Jr., Ph.D., Economist of the Chase National Bank of the City of New York

The bulletin which follows refutes the view that the recent great growth in time deposits represents true savings. It is a study of the process by which, in recent years, surplus reserves have generated an expansion of bank credit in the United States. The study shows why the expansion has been more rapid in time deposits than in demand deposits, and shows how the bank expansion has increased the volume of money in investors' hands, without a corresponding growth in investors' savings.

HOW SURPLUS RESERVES GENERATE BANK EXPANSION

When the practical banker is told that, on the basis of a \$100,000 of surplus reserves in his assets, he may create a million dollars of new loans, on the one hand, and a million dollars of new deposits, on the other, he is not impressed. He knows better. His experience has taught him that, under ordinary circumstances, an increase in loans promptly reflects itself in withdrawals of cash. Men do not borrow as a rule for the purpose of carrying unused deposit balances with the bank which has made the loan, and the banker who increases his loans normally expects to lose cash in the warfare of checks at the clearing house shortly thereafter.

Having an excess of \$100,000 in reserves over his required reserve, the banker will ordinarily lend \$100,000, increasing his loans by \$100,000 and increasing his deposits by \$100,000 in the process, since the proceeds of the loan are ordinarily taken by the borrower in the form of a deposit credit. If, as is usual, the borrower promptly checks against his deposit balance to make payment to a depositor in another bank, the banker who has made the new loan will find his deposits reduced and his cash reserves reduced by \$100,000 the next day. His total assets and his total liabilities will be no bigger than they were before the loan was made. But the composition of his assets will be changed. His cash reserve will be reduced \$100,000 and his loans will be increased \$100,000.

This is the normal expectation of the banker, and it is the only safe principle on which he can proceed. It is the normal experience when the money market is in equilibrium, when the total volume of bank reserves is changing little, and when in the banking community generally there is no excess of reserves over reserve requirements—some banks being a little under the required reserves, others being a little over the required reserves, but the general average being approximately at the required reserves.

But obviously the situation is different if, on the same day, many banks find themselves with excess reserves and all of them simultaneously try to

lend out the excess. Assume a clearing house with three bank members, all approximately equal in size, and assume that each finds itself with \$100,000 excess reserve, and that each increases its loans by \$100,000 and its deposits by \$100,000 in trying to get rid of its excess reserve. Assume that the borrowers promptly use the proceeds of the loan in making payments, so that a check for \$100,000 is drawn on bank A and deposited in bank B, a check for the same amount drawn on bank B and deposited in bank C, and a check for \$100,000 is drawn on bank C and is deposited in bank A.

Next day at the clearing house each bank has to meet, as a consequence of its loan operations of the preceding day, checks drawn against it for \$100,000. But, on the other hand, each bank has checks on one of the other banks to present for \$100,000. As a consequence, no one of them loses any cash. Deposits are up \$100,000 in each bank, loans are up \$100,000 in each bank, and reserves are still in excess in each bank.

Assume that they are New York City banks, and that the deposits created by these operations are demand deposits, the surplus of reserves in each bank is now cut by \$13,000, and each has \$87,000 surplus reserve (the percentage of required reserve to demand deposits in New York City being 13 percent). The banks must, therefore, try again. In accordance with usual practice, each would make additional loans of \$87,000, but, to simplify the arithmetic, I shall assume that each makes another loan of \$100,000, and that the same operations of the clearing house are gone through with as before. Loans and deposits in each bank are now up \$200,000 each, and still no bank has lost any of its reserves. Another \$13,000 of reserves is tied up, however, by the new deposits created, and the excess reserve remaining in each of the banks is now \$74,000.

This process will go on, on the assumption laid down, until new bank credit is created in an amount such that the \$100,000 excess reserve in each bank is 13 percent of the new deposits in each bank, or, in other words, until, on the original \$100,000 excess reserve in each bank new deposits of \$769,230 have been created, and new loans of equal amount have been created. Then there are no longer excess reserves on the assumptions laid down.

We reach the same conclusions if we assume that banks B and C have adequate reserves and that bank A receives \$300,000 excess reserve. Bank A lends out \$300,000 and increases its deposits by that amount. Next day, as a consequence of checks drawn against the newly created deposits, \$100,000 is deposited in each of the three banks, bank A receiving its share of the checks drawn against it. Next day at the clearing house, bank A loses \$200,000 as a consequence of the checks drawn on it and deposited with banks B and C. Each bank now has \$100,000 more reserves, and this is almost precisely the position we started out with in the illustration first given, the difference being that each bank already has the first \$100,000 increase in deposits which the new reserve made possible, and that banks B and C have no increase in loans while bank A has a \$300,000 increase in loans. From this position, in accordance with the reasoning given above, the process of expansion will move forward until the new reserves are full utilized.

USUAL CHECKS ON MULTIPLE EXPANSION SUSPENDED IN RECENT YEARS

The foregoing illustration is artificially simple. It ignores a good many complications. But it does illustrate the essential causation at work in the past few years in the American money market.

Among the complications ignored are the existence of outside markets which would pull away reserves, not merely from bank A, but also from the whole system of banks A, B, and C. The expansion takes place in New York City, but part of the proceeds of the expansion are spent in Chicago or New Orleans or San Francisco. In recent years, however, the increased bank reserves have been diffused widely over the country, and the country as a whole has expanded.

The illustration ignores further the fact that when increased loans are made for commercial purposes, in connection with increasing commercial activity, there is usually an increased demand for hand-to-hand cash, which takes cash out of the banks and pulls down their reserves, checking the expansion. But the expansion in the United States in recent years has not involved increased commercial borrowing and has involved no increase in the use of hand-to-hand cash since 1923.

The illustration ignores the possibility that bank expansion in the United States, leading to an increase in loans to foreign countries, would cause foreign money markets to pull away gold from the United States, which would tend to cut under the volume of bank reserves in the United States as a whole and check the expansion before it could go as far as the illustration assumes. To some extent, this has happened, but has been offset by other factors, notably by increases in Federal Reserve bank credit, and only very recently has it assumed proportions which seem likely to be effective.¹

The illustration given above assumes, moreover, that the only factor governing the volume of loans that banks will make is the volume of reserves available. But there have been times in the history of the country, notably in the seventies and in the middle nineties, when reserves piled up without being used, either because the banks could not find satisfactory credits, or because good borrowers would not take loans, even at low rates, or because many banks felt obliged to carry reserves high above the legal requirements in view of dangers and uncertainties. For the New York Clearing House banks, the average reserve for the year stood in 1894 at 37.59 percent of deposits, although the legal requirement was only 25 percent. The figure stood at 45.2 percent in February of 1894. The average for the year for the whole of the United States was 26 percent in 1894, although the legal requirement was far below this. The same average for the year was 15 percent in 1906.² Reserves can be fully utilized in times of buoyant general confidence where they could not be in times of depression and pessimism. But the past few years have been times when banks have been confident in lending, and borrowers (other than commercial borrowers) have been confident in borrowing.

MULTIPLE EXPANSION AND FEDERAL RESERVE BANK CREDIT

The proposition that, on the basis of a given volume of excess reserves, the banks may, under varying conditions, erect an additional fabric of general bank credit, 2, 10, or 19 times as great as the surplus reserves, is not to be confused with the proposition that, on the basis of an expansion of a given amount in Federal Reserve bank credit, the banks will automatically erect an additional fabric of general bank credit in some fixed ratio. This latter proposition was set forth in 1920-21, at which time it was contended that the commercial banks had built a fabric of \$9 for every dollar of Federal Reserve bank expansion, and that in the liquidation which was to follow, the banks would have to contract general bank credit by approximately \$9 for every dollar that Federal Reserve bank credit contracted.

The facts were, however, that in the expansion which took place from the time we entered the war in April 1917, until June 30, 1918, commercial bank deposits expanded in a less than 1-to-1 ratio with Federal Reserve bank expansion and, that by June 30 of 1919 the deposits of the commercial banks had expanded only \$2.80 for every dollar of Federal Reserve bank expansion. By the end of June 1920, the ratio had gone to \$3.20 of increase in commercial bank deposits to \$1 of increase in Federal Reserve bank credit. Finally, in the liquidation which followed, there was a very moderate percentage decline in general bank credit accompanying an immense percentage decline in Federal Reserve bank credit.³

The period 1917-21 represents a very sharp contrast to the period since 1922. Federal Reserve bank expansion, 1917-21, was a response to war needs and to a post-war commercial boom and crisis. This expansion was accompanied by a rapid increase in money in circulation and, during the latter half of 1919 and much of 1920, by the withdrawal of large sums of gold for shipment abroad. The liquidation of 1921 was accompanied by the return of large sums of money from circulation and by the import of large sums of gold from abroad. The Federal Reserve banks fed out the cash needed for increased circulation and the gold needed for export, and the Federal Reserve banks reabsorbed the cash returned from circulation and the gold that came back from foreign countries.

¹ In the Chase Economic Bulletin, vol. VII, no. 4, we have discussed the unusual world situation which not only protected our gold, but actually increased it, while our expansion proceeded.

² Vide the present writer's *Value of Money*, pp. 178-79.

³ See Chase Economic Bulletin, vol. I, no. 5, pp. 20-27. This discussion is reproduced in *Hepburn's A History of Currency in the United States*, 1924 edition, final chapter, and the *Commercial and Financial Chronicle*, July 23, 1921, pp. 349-354. See also Chase Economic Bulletin, vol. VI, no. 3, pp. 11-15.

In large measure the member banks were intermediaries between the public and the Federal Reserve banks in handling the exported or imported gold and in handling the money for circulation. During the expansion, although their reserves increased, they rarely had surplus reserves, because the public and foreign countries were constantly draining them of gold and other forms of cash. During the liquidation it was not necessary for them to contract credit violently in order to pay off their debts at the Federal Reserve banks, since the return of cash from circulation and the reimported gold gave them the necessary resources.

In a large way it may be said that the basic theory of the Federal Reserve System is that it would function primarily in much this way. The typical case anticipated was the autumn, the crop-moving season. At this time a very substantial Federal Reserve bank expansion can take place without generating any commercial bank expansion at all, because of the autumn need for hand-to-hand cash.

If Federal Reserve bank expansion takes place only in response to increased needs for money in circulation or in response to gold exports, and if Federal Reserve bank credit contracts promptly when money returning from circulation and gold imports enable the member banks to pay off their rediscounts, the expansion and contraction of Federal Reserve credit need occasion no general expansion or contraction of commercial bank credit at all. The Federal Reserve banks, in that case, are merely preventing tension and taking in slack.

If, second, Federal Reserve bank expansion takes place in response to commercial bank expansion, following and not preceding the expansion of loans and deposits which commercial banks make in meeting the demands of their customers, again Federal Reserve bank credit is not an active cause of commercial bank expansion. Nor is Federal Reserve bank credit an active cause of contraction, if it waits to contract until commercial bank credit contracts and the commercial banks reduce their rediscounts.

It is commonly only when the Federal Reserve banks take the initiative, especially through their purchases of Government securities, in creating Federal Reserve bank credit that surplus reserves are created thereby, and that the multiple expansion, based on Federal Reserve credit, can take place. It is to be observed, however, that during March and April of the current year, with Federal Reserve bank rediscount rates held below the market and with the speculative fever strong, surplus reserves appear to have been created, permitting a sharp bank expansion, through member banks' borrowing to relend at a profit, instead of borrowing only to replenish their reserves. If the traditional rule of central banking, that of holding rediscount rates above the market, were followed, this situation could hardly arise.

PROGRESSIVE REDUCTION OF RESERVE REQUIREMENTS

In another highly important particular, however, the foregoing illustration ignores a remarkable development in recent years which has made possible a much faster multiplication of bank credit on the basis of a given volume of excess reserves than the foregoing figures exhibit. Our figures assume a 13 percent reserve requirement for demand deposits and assume that the whole expansion is in demand deposits. But the 13 percent requirement for reserves against demand deposits holds only for New York City and Chicago. In other reserve cities the requirement is only 10 percent, and in banks outside the reserve cities the requirement is only 7 percent. For time deposits throughout the country the requirement is only 3 percent. Under these circumstances, to the extent that the expansion takes place outside New York and Chicago, and to the extent that the expansion takes place in time rather than in demand deposits, it can move far more rapidly than our illustration indicates. Now, the expansion has in fact been country-wide. And the expansion has been far more in time deposits than in demand deposits.

For all the national banks of the United States, net demand deposits have increased from \$10,348,000,000 on March 31, 1924 to \$12,177,000,000 on February 28, 1928, an increase in 4 years of 17.7 percent, whereas time deposits between the same dates increased from \$5,109,000,000 to \$7,992,000,000, an increase of 56.4 percent. The following figures show the relations of net demand deposits and time deposits for the reporting member banks of the Federal Reserve System on different dates.

Reporting member banks

Date	Net demand deposits	Time deposits	Actual reserve percentage
Apr. 1, 1921.....	\$10,271,000,000	\$2,925,000,000	9.57
Apr. 5, 1922.....	10,466,000,000	3,121,000,000	-----
Apr. 4, 1923.....	11,212,000,000	3,659,000,000	-----
Apr. 2, 1924.....	11,246,000,000	4,230,000,000	-----
Apr. 1, 1925.....	12,756,000,000	5,053,000,000	-----
Apr. 7, 1926.....	12,761,000,000	5,516,000,000	-----
Apr. 6, 1927.....	13,042,000,000	6,012,000,000	-----
Apr. 25, 1928.....	12,742,000,000	6,878,000,000	8.75

From April 1, 1921 to April 25, 1928, 7 years, the increase in net demand deposits of the reporting member banks has been \$3,471,000,000, or, roughly, 33.8 percent, while the increase in their time deposits has been \$3,853,000,000, or 135.1 percent. For the reporting member banks of the city of New York, the figures are as follows:

Reporting member banks—New York City

Date	Net demand deposits	Time deposits	Required reserve percentage
Apr. 15, 1921.....	\$4,118,000,000	\$290,000,000	12.34
Apr. 12, 1922.....	4,308,000,000	363,000,000	12.24
Apr. 11, 1923.....	4,230,000,000	627,000,000	11.71
Apr. 16, 1924.....	4,369,000,000	650,000,000	11.70
Apr. 15, 1925.....	4,980,000,000	816,000,000	11.59
Apr. 14, 1926.....	5,001,000,000	814,000,000	11.60
Apr. 13, 1927.....	5,036,000,000	960,000,000	11.40
Apr. 18, 1928.....	5,626,000,000	1,117,000,000	11.34

The comparative growth of time deposits in New York City is particularly striking, and the reduction in the ratio of required reserves to deposits is impressive.

Even more rapid is the decline in the reserve ratio for the national banks of the country as a whole as a consequence of this development. The ratio of required reserves to deposits is shown by the following table:

All national banks—required reserve percentage

	Percent		Percent
May 5, 1922.....	7.87	April 12, 1926.....	7.31
April 6, 1925.....	7.39	February 28, 1928.....	7.05

It is difficult to estimate the legal reserve requirements for all the commercial banks of the country. The table on next page gives the actual rather than the required reserve percentages. The member banks of the Federal Reserve System, though less than half in number of all the commercial banks of the country, hold over three fourths of the total deposits of all the commercial banks of the country. The nonmember commercial banks, moreover, are linked closely with the Federal Reserve System through the fact that they carry the greater part of their reserves in the form of deposit balances with the member banks. Part of their reserves they carry in cash in their own vaults also. The table on next page, therefore, comparing the deposits of all the commercial banks with the reserve balances of the member banks, though misleading if it were interpreted as stating the total reserves of all the commercial banks, or the complete reserve percentage of all the commercial banks, still has real significance. Through the member bank reserves the nonmember banks feel the expansion or contraction of Federal Reserve bank credit, and the influence of increasing or decreasing gold supply. From mem-

her bank reserves they draw hand-to-hand cash needed for expanding trade, and to the same place they return excessive cash as trade needs decline. The reserves of the member banks are the heart of the money market.⁴

All State and National banks and trust companies

Date	Total deposits	Member bank reserve balances with the Federal Reserve banks ¹	Actual percentage member bank reserve balances to all commercial bank deposits
June 30, 1922.....	\$30,890,000,000	\$1,865,000,000	6.08
June 30, 1923.....	32,726,000,000	1,868,000,000	5.71
June 30, 1924.....	35,326,000,000	2,016,000,000	5.71
June 30, 1925.....	38,539,000,000	2,199,000,000	5.71
June 30, 1926.....	40,126,000,000	2,229,000,000	5.56
June 30, 1927.....	41,587,000,000	2,342,000,000	5.63
April 11, 1928.....	44,234,000,000	2,432,000,000	5.50

¹ See appendix A.

HOW SURPLUS RESERVES AND BANK EXPANSION GENERATE TIME DEPOSITS RATHER THAN DEMAND DEPOSITS

The foregoing figures make it clear that our great bank expansion of recent years has been primarily in time rather than in demand deposits. Both absolutely and relatively the great increase appears to have been in this form. Why should this be?

It would not have been if, accompanying the immense bank expansion, there had been a corresponding increase in the demands of trade and if the bank expansion had been called forth by trade needs instead of being pushed out by excessive reserves. But, as seen above, there would have been no such great bank expansion, even with the growing reserves, had the bank expansion been accompanied by growing trade needs, since there would also have been increased need for hand-to-hand cash, which would have cut under the bank reserves. But business men and most other people tend to be economical in the use of money. They do not carry pocket cash or fill money in great excess of their needs. Instead they deposit it in the banks, getting a small percent of interest on their checking accounts or, even if no interest is paid, building up good will and a "borrowing equity" with the bank which they may need at a later time. Similarly, they do not carry demand deposits with the bank at 1% percent interest in great excess of their needs when they can get a higher percent on time deposits. More cash in till and in pocket, and larger demand deposits will be used when money is easy than when money is tight, but the saturation point is much more easily reached in these uses than in the case of time deposits.

The fact, therefore, that an immense expansion of bank credit has taken place, unneeded by commerce and industry, has made it inevitable that a high percentage of this increase would take the form of time deposits rather than demand deposits. But this, as we have seen, has tended to reduce the reserve ratios required for a given volume of deposits, and so has permitted the expansion to go much further than would otherwise have been the case. There has been thus something of a vicious spiral, expansion paving the way for more expansion, and monetary ease begetting further monetary ease.

In this connection, it may be observed that a reverse process of a cumulative sort can take place with a tightening of money. With a tightening in the money market, and increased need for demand deposits, there would be a tendency to shift part of the time deposits to the demand form. One of the first evidences of quickening trade, for example, encountered by a bank in a large city is a request by great business corporations that the bank convert some of

⁴ See Chase Economic Bulletin, vol. VIII, no. 2, pp. 4-6.

their time deposits into demand deposits, so that they may use them. The immediate tendency of this is to tighten the money market through increasing the reserve requirements. Money could tighten sharply without any increase in loans and without any decrease in reserves, merely by a shifting of deposits from the time form to the demand form.

TIME DEPOSITS AND SAVINGS

There are those who have looked with complacency upon the immense expansion of bank credit which has taken place, precisely because of this comparative growth of time deposits as compared with demand deposits. They have held that the time deposits represented savings rather than bank expansion. It is doubtless true that, in large measure, time deposits in banks in smaller places are true savings deposits and, to some extent, this is true in city banks.⁵ But the greater part of time deposits in great cities are of a different character. They represent the temporarily idle funds of business corporations, or the liquid foreign reserves of foreign banks, or the temporary idle funds of rich investors who have withdrawn from the market and are awaiting a favorable time to reenter it. They are very different in character from the thrift accounts and savings accounts of workmen and others who gradually accumulate savings out of their incomes. Some important corporations have placed substantial time deposits in smaller places, also, for the sake of the higher interest paid there. Most of the growth of the time deposits of city banks is a product of bank expansion rather than of saving.

In this connection, it may be observed that the most rapid growth of time deposits in recent years has been in city banks. For the national banks this is made strikingly evident in the following table.

[In millions of dollars]

Date	Banks in central reserve cities		Banks in other reserve cities		Banks outside reserve cities	
	Net demand deposits	Time deposits	Net demand deposits	Time deposits	Net demand deposits	Time deposits
May 5, 1922.....	3,112	227	3,014	736	3,805	2,955
Feb. 28, 1923.....	3,394	636	4,210	2,398	4,574	4,959

The evidence is impressive. Time deposits outside the reserve cities have increased about 68 percent. Time deposits in the central reserve cities have increased more than 180 percent, and time deposits in other reserve cities have increased more than 225 percent. A similar story is told when we examine the figures for the reporting member banks of the Federal Reserve System, contrasting the agricultural districts with the great city districts.

Reporting member banks

[In millions of dollars]

Date	Atlanta district		Kansas City district		New York district		Chicago district	
	Net demand deposits	Time deposits	Net demand deposits	Time deposits	Net demand deposits	Time deposits	Net demand deposits	Time deposits
Apr. 12, 1922.....	236	145	400	106	4,793	544	1,327	657
Apr. 25, 1923.....	331	239	500	178	6,175	1,673	1,832	1,264

The percentage growth of time deposits in the Atlanta district is 64.8 percent, in the Kansas City district is 67.9 percent, in the New York district is 207.5 percent, and in the Chicago district is 92.4 percent.

But, second, the great growth of time deposits has been in the periods of monetary ease and rapid bank expansion, and not in the periods of relatively

⁵ Cleveland and Los Angeles, especially, would probably show a high percentage of real savings in their time deposits.

firmer money and retarded bank expansion. The year 1922 was a year of rapid expansion. The Federal Reserve banks increased their open market purchases, gold came in, and deposits moved rapidly. From January 4, 1922, to January 3, 1923, the time deposits of the reporting member banks increased from \$3,011,000,000 to \$3,748,000,000, or 24.5 percent. The year 1923 was one in which the Federal Reserve banks reversed their policy and offset the incoming gold by reducing their open market purchases and raising their rates of rediscount. The time deposits of the reporting member banks in this year rose from the \$3,748,000,000 of January 3, 1923, to \$4,104,000,000, or 9.5 percent, by January 2 of 1924. The year 1924 was one of very great Federal Reserve bank expansion, great ease of money, and very rapid bank expansion. Time deposits moved up in this year from \$4,104,000,000 on January 2 to \$4,849,000,000 on January 7 of 1925, or 18.2 percent.

The case is even more striking when we observe the behavior of time deposits in certain of the major cities. From April 12, 1922, to April 11, 1923, time deposits in New York City moved up from \$353,000,000 to \$627,000,000, or 77.6 percent. In the following year, the period of restricted credit, the same time deposits moved up only from \$627,000,000 to \$649,000,000, or 3.5 percent (by April 16, 1924). In the following year, coming down in April 15, 1925, a period of great monetary ease, time deposits moved up to \$816,000,000, or 25.7 percent, whereas in the next year to April 14, 1926, there was an actual decrease of \$2,000,000, the 1926 figure being \$814,000,000.

A similar story can be told for Chicago. From April 5, 1922, to April 11, 1923, time deposits increased from \$311,000,000 to \$372,000,000, but from April 11, 1923, to April 16, 1924, they increased only \$1,000,000, to \$373,000,000. This high variability in the growth of time deposits is very different from the steady growth which characterizes the figures of the savings banks.

Again, the growth of time deposits has been very much more rapid than the growth of savings deposits, as shown by the following figures for the mutual savings banks, on the one hand, and the time deposits of the reporting member banks and national banks, on the other hand.

Comparative growth of savings deposits and time deposits

[In millions of dollars]

Date	Deposits of all mutual savings banks	Time deposits of national banks	Time deposits of reporting member banks in New York district ¹	Time deposits of all reporting member banks ¹
June 30, 1922.....	5,760	4,112	686	3,380
June 30, 1923.....	6,289	4,755	961	4,000
June 30, 1924.....	6,693	5,260	972	4,418
June 30, 1925.....	7,147	5,925	1,174	5,172
June 30, 1926.....	7,578	6,314	1,263	5,650
June 30, 1927.....	8,077	7,318	1,472	6,212
Jan. 1, 1928.....	8,315	7,808	1,622	6,611
Percent increase over 1922.....	43.9	89.9	143.5	95.6

¹ Figures for reporting member banks are for dates nearest June 30,

² Estimated.

³ Dec. 31, 1927.

INVESTORS' MONEY AND BANK EXPANSION

The foregoing considerations raise the larger question of the extent of investor's savings as compared with bank expansion in the study of funds in the money market. Bond dealers and others actually in the capital market have been reporting an immense volume of investor's demand. They recognize that the banks have been buying investments, too, and they recognize that a great volume of securities purchased is carried with borrowed bank money, because the growing figures for broker's loans and the growing figures for bank loans against stock and bond collateral have convinced them of the fact. But they none the less insist that there has been an immense volume of money coming from true investors, and they are disposed to characterize all this as savings.

The facts are as they state them. There has been a great volume of buying by investors and a great volume of free money in investors' hands, and this has been true for several years. But the conclusion which they would draw

seems to me not to follow. If an investor in farm mortgages has a mortgage paid off because a joint-stock land bank has borrowed money in New York with which to lend to the farmer who gave the mortgage, this puts real money into the hands of the investor. But when he comes to New York to buy a bond, in order to use his money thus freed, he is merely reinvesting displaced capital and not investing new savings.

When a real-estate owner sells for \$50,000 a piece of real estate, for which seven years earlier he paid \$25,000, turning into cash the increase in the value of his land which the cheap money period has brought about, he has real money to invest, but it does not represent ordinary savings. When speculative profits in securities, which have risen because of the great excess of bank money, are turned into cash, and the successful speculator proceeds to invest the cash in bonds, he again has real money to invest—but not ordinary savings. The original fountain and source of this investor's money coming back to the money market is the money previously created by bank expansion in the money market. The frequent shifting of holdings, the displacement of holdings, and the profits from appreciation of holdings, all give rise to large sums for investment and reinvestment, but they are phenomena growing out of bank expansion, and not phenomena growing out of ordinary savings.

Similarly with the investments of business corporations in securities and with the employment of funds of business corporations in call loans or in growing deposits in banks. To some extent these do grow out of real corporate savings, the turning back of profits to surplus. But in large part they grow out of the fact that in the period of easy money a great multitude of business corporations have issued securities for permanent financing, which has not only freed them from the necessity of borrowing from the banks, but has also given them, especially in dull seasons, surplus funds for use in these ways. From the bond dealers' point of view, this money is just as good as any other, but it must not be placed in the category of savings.

Indeed even the figures of the savings banks themselves must have been appreciably swollen by this shifting of funds. Small investors, seeing their good securities rise to very high levels, have sold them to take profits, and, not knowing what else to do with their money, have put it in the savings bank—a process of reinvesting old savings rather than the initial investment of new savings.⁶

BROKERS' LOANS AND BANK RESERVES

An important development permitting the expansion of brokers' loans in New York City to go further than would otherwise have been possible, because freeing reserves as it has gone on, has been the increased participation, (a) by out-of-town banks, and (b) by business corporations and others, in the New York brokers' loan market. If a business corporation decides to convert part of its deposits into brokers' loans, it will ordinarily displace an existing loan by a New York bank. The simplest case would be that where the corporation, acting through a bank, takes over a loan held by the bank in which it keeps its deposit. In this case, three changes take place in the bank's figures: (1) deposits are reduced, (2) loans are reduced, (3) reserves, formerly just adequate, now become more than adequate. Reserve money amounting to 13 percent of the deposit is set free when a demand deposit of a corporation in a New York bank is converted into a broker's loan. The same result is reached, however, if the bank, assuming its reserve just adequate, first loans for the corporation on the floor of the Stock Exchange, debiting the corporation's deposit in the process, and then calls a loan of its own in order to meet the expected withdrawal of cash through the clearing house next day.

With somewhat less certainty, we may say the same thing for the increased participation of out-of-town banks in the brokers' loan market. To the extent that they draw down their New York balances in the process of making call loans and take over loans from the New York banks, they release bank reserves in New York, which tends to permit further expansion of bank credit. If they send in new funds from outside for lending on call, this conclusion does not follow, but even in that case they may be drawing down balances with correspondent banks in other cities, forcing them to call loans,

⁶ Savings bank men have expressed the opinion that in recent weeks a reserve phenomenon has manifested itself; namely, the taking out of the savings banks of funds with which to speculate in the stock market. But those who express this view characterize it as a new development little known prior to 1923.

and leaving them with surplus reserves as a consequence. Both these things have gone on, on a considerable scale, in recent months, as shown by the following figures:

Brokers' loans made by or through New York City banks¹

[In millions of dollars]

Date	Total	For own account	For account of out-of-town banks	For account of others
Jan. 4, 1928.....	3,810	1,511	1,371	928
Apr. 25, 1928.....	4,144	1,200	1,614	1,330
June 6, 1928.....	4,563	1,167	1,642	1,755

¹ As reported by Federal Reserve authorities.

The present bulletin, though a self-contained study, may also be looked upon as supplementing the Chase Economic Bulletin, volume VIII, no. 1, June 4, 1928, called "An Analysis of the Money Market."

APPENDIX A

EXPLANATION OF GROWTH IN RESERVES OF MEMBER BANKS OF FEDERAL RESERVE SYSTEM, 1922-28

The detailed explanation of the items entering into this table is contained in the Chase Economic Bulletin, volume VIII, no. 1, "An Analysis of the Money Market", pages 6-11.

June 28, 1922-May 2, 1928

[In thousands of dollars]

Member bank reserves, June 28, 1922.....	\$1,865,199
Member bank reserves, May 2, 1928.....	2,441,860

Changes which increase member bank reserves

Increase in monetary gold stock ^a	482,000
Increase in amount due Federal Reserve banks from foreign banks.....	570
Increase in Federal Reserve bank float.....	20,745
Increase in money outside Treasury (other than gold, gold certificates and Federal Reserve notes) ^b	68,000
Decrease in Government, foreign bank, and other deposits in Federal Reserve banks ^c	22,416
Increase in total bills and securities of Federal Reserve banks:	
1. Increase in rediscounts.....	+287,953
2. Decrease in open market purchases:	
a. Increase in bills purchased.....	+209,041
b. Decrease in Government securities purchased.....	-264,305
c. Increase in other securities purchased.....	+990
	233,679
	827,410
	245,000
Estimated increase in member bank reserves.....	582,410
Actual increase in member bank reserves.....	576,661

Changes which decrease member bank reserves

Increase in money in circulation ^d	245,000
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^a June 30, 1922-May 2, 1928. Estimated for May 2, 1928.

^b June 30, 1922-Apr. 30, 1928.

^c Prior to 1923, part of the cash of the Federal Reserve banks, i.e., national bank notes, Federal Reserve bank notes, unassorted currency, and nickels and cents, was included in the figure for "Uncollected items", from which we subtract "Deferred availability items" in computing the Federal Reserve bank float. In order to make the float of June 28, 1922, comparable with the float of May 2, 1928, in our calculation, it was necessary to deduct these cash items from "Uncollected items" in 1922.

APPENDIX B.—Bank credit and gold, all commercial banks
(In millions of dollars)

Date	Total deposits of all State and national banks and trust companies	Monetary gold stock of the United States	Percentage of monetary gold stock to total deposits of all State and national banks and trust companies	Total gold reserves of Federal Reserve banks	Percentage of gold reserves of Federal Reserve banks to deposits of all State and national banks and trust companies
June 30, 1932.....	30,690	3,785	12.33	3,022	9.85
June 30, 1933.....	32,725	4,050	12.38	3,085	9.46
June 30, 1934.....	35,326	4,438	12.70	3,128	8.85
June 30, 1935.....	38,539	4,305	11.33	2,790	7.24
June 30, 1936.....	40,126	4,447	11.08	2,835	7.07
June 30, 1937.....	41,587	4,587	11.03	3,021	7.26
Apr. 11, 1938.....	44,234	4,305	9.73	2,749	6.21

¹ Estimated on basis of reporting member bank figures.

² As of Mar. 31, 1938.

THE EXCHANGE EQUALIZATION ACCOUNT

As considerable doubt seems to exist both at home and abroad as to the nature of functions of the exchange equalization account, we have thought it desirable to give a brief explanation of its operations. When the gold standard was suspended in September 1931, it at once became apparent that sterling was in danger of wide fluctuations, due not so much to trade influences, as to sudden movements of capital, psychological hopes and fears, and speculative operations. In the long run, these would tend to even out, but in the short run they could cause serious disturbances to our foreign trade.

The first example of this occurred in the spring of 1931, when a general recovery of confidence in Great Britain stimulated a heavy demand for sterling. In a sense this was the back-wash of the loss of confidence the previous autumn which ended in driving us off the gold standard, but there was no guarantee of its permanence, and so it was thought desirable to resist the rise in the value of sterling which it brought about. The only method of resistance lay in official purchases of the foreign currencies thrown on the London exchange market, and this duty was assumed by the Bank of England. There was, however, a limit to the resources which the bank could legitimately invest in foreign exchange holdings, while it was hardly fair to ask the bank to assume the risk of heavy loss which these operations in a fluctuating exchange market entailed. These operations were being undertaken in the public interest, and it was only right that they should be conducted with public funds.

The exchange equalization account was, therefore, created on July 1, 1932, by the Finance Act of that year. It was originally a Government fund with a limit of £150 millions plus the balance of the old dollar exchange reserve amounting to £25 millions, but is being extended by £200 millions by a bill now passing through Parliament. When constituted, its assets consisted partly of Treasury bills and partly of an advance by it to the exchequer, the latter item representing the difference between the legal size of the account and the working capital it actually needed. Those operating the account were entitled to hold its assets in the form of gold, sterling or foreign exchange, as seemed desirable, and to exchange from one into the other at will. In plain language, the creation of the fund gave the Government power to buy and sell foreign exchange within a limit of £175 millions.

The first action of the exchange account was to take over from the bank the large holdings of foreign exchange which it had acquired, giving to the bank Government securities (presumably Treasury bills) in exchange. This relieved the bank of the liability it had previously incurred and also gave the account a substantial foreign exchange reserve. Henceforward it proceeded to operate in foreign exchange, mainly dollars and francs, in such a way as to smooth out fluctuations and to make speculation in sterling a highly dangerous proceeding. In general, it bought sterling last autumn when the pound was falling, and

sold sterling heavily early this year, but it was always liable to turn round without warning, and its operations were deliberately made incalculable from one minute to the next. Thus speculators in sterling never knew where they stood, and very often the knowledge that the control operating the exchange account could intervene was a sufficient deterrent without intervention being necessary.

The main points of interest are what was the influence of this new experiment upon the different phases of our financial life. Take, first, the state of the floating debt. When the account first came into existence there was an immediate increase of \$150,000,000 in the floating debt. Initially this was a purely bookkeeping operation, but as and when the account began to sell treasury bills for other assets, these treasury bills passed into general circulation, and thus made the increase in the floating debt effective. The real test is what amount of assets other than Government securities does the exchange account hold at any given moment? The answer to this question gives the effective increase in the floating debt at that particular moment.

Next comes the effect of the account's operations upon the general credit structure of the country. It may be said at once that the account does not hold idle cash assets in the form of a deposit at the bank, for this would be contrary to the general financial practice of the treasury, which never immobilizes funds. Such balances would at once be surrendered to the treasury as an advance from a public department, and this would enable the treasury to retire bills from general circulation. But what happens when the account buys or sells foreign exchange? To answer this question, let us consider the effect of a purchase, for a sale would have the converse result.

Before a purchase is necessary, funds must have been transferred to a London bank from abroad, so as to cause the appreciation of sterling which the purchase is designed to offset. Thus the London bank has by hypothesis acquired foreign exchange and has credited its customer's sterling deposit. The account then buys the foreign exchange from the London bank, and to put itself in funds to pay for the exchange probably sells treasury bills to the Bank of England, who act as its bankers. The exchange is paid for by a check on the Bank of England in favor of the vendor bank. Thus in this particular case the net result is an increase in the bank's holdings of Government securities, offset by an increase in bankers' deposits at the bank, which are part of the banks' cash. Whether the treasury or the bank later take steps to neutralize this increase is another matter. What can be said with some assurance is that each purchase of foreign exchange by the account has a mildly inflationary effect upon bank cash and credit. A sale has the contrary effect.

The next question is the influence of the account's operations upon the exchanges. Taking the short view, its operations succeed in their intention of smoothing out fluctuations, but in the long run different consequences may follow. There is a definite limit, set by the size of the account, to the extent of its operations, and if there is a sustained pressure upon the exchanges, in the end the account may have to give way. Thus last October seasonal and other causes led to such a sustained pressure against the pound, and after supporting sterling for several weeks, in the end the account let go. A sudden collapse in sterling followed, which for a time caused a considerable disturbance and gave scope for speculation. It is arguable that it is not the function of the account to resist major movements, but merely to smooth out minor fluctuations, but it is important to realize that there are certain limitations to the powers of the account.

When the American panic, however, stimulated a major movement in favor of sterling the control had a reserve weapon at its disposal. This consisted of selling its foreign exchange acquisitions for gold, which it resold to the Bank of England in exchange for sterling assets. This, in effect, turned the account into a channel through which foreign purchases of sterling were offset by the importation of gold, which went into the bank, just as if we were still on the gold standard. It also meant that the operations of the account need no longer be confined within a limit of \$175 millions. Incidentally it saved the Government from finding itself in the somewhat delicate position of holding in an official fund large quantities of foreign exchange, operations in which might affect the equilibrium of foreign money markets.

The terms upon which the bank buys or sells gold are defined in the 1932 Finance Act. The bank deals in gold at the current market price, but values its gold at par. Therefore, so long as the price of gold remains above par, every purchase involves the bank in a loss and every sale realizes a profit.

By the terms of the Finance Act, these losses are made good by the exchange account, which also receives the profits. The same rule applies to foreign-exchange operations by the bank. It follows that when the exchange account buys gold which it resells to the bank it incurs a net loss on each transaction. In time such losses would absorb the funds held by the account, so that there is a definite if remote limit upon its power to act as a channel for the importation of gold. This may be one reason why power is now being taken to increase the size of the account.

It may be added that whereas last autumn the account only had a limited amount of foreign exchange at its disposal, today it also has virtually at its command all the gold which it has lately sold to the bank, for it can obviously act as a channel in the reverse direction, whereby an efflux of funds from the country can be covered by the exportation of gold now held by the bank. The fact that the bank has lately allowed the fiduciary note issue to relapse to £260 millions is immaterial, for if the account begins to take gold from the bank for resale abroad the fiduciary limit can be raised again. It is true that the bank is not bound to part with its gold, but it is common knowledge that close cooperation exists between the bank and those operating the account. The considerations outlined in this paragraph will probably have an important bearing upon the future operations of the account.

Meanwhile there has for some time been an impression abroad that the account was being operated in a way prejudicial to foreign interests, and it was even suggested that the refusal last January and February of the British authorities to allow the pound to rise was one of the causes of the accentuation of the American crisis. It is to be hoped that the above description of the workings of the account will already have dispelled such misconceptions, for it must be emphasized that our real object has been to keep the pound steady, which is quite different from keeping it down. In fact, last autumn the account had to support sterling. It may be that the level at which the pound was held last winter was determined partly by our own interests, but it may equally be said that had the dollar been allowed to fall freely against sterling the efflux of capital from New York and subversive speculative operations in dollars would have been greatly magnified. To that extent we may claim to have delayed and mitigated the American crisis of early March.

On the wider question of the relative level of the pound and the dollar, more recent events have shown that the remedy lies partly in American hands, for by reimposing the gold embargo President Roosevelt in 1 week drove the pound up from \$3.41 to \$3.85, or by 13 percent. Nor was the exchange account in a position to resist such a movement, and in point of fact no attempt at resistance was made. Furthermore, the suspension of the gold standard in the United States alters the whole field of the British exchange account's operations, especially if the United States Government sets up a similar exchange fund of its own. In fact, close cooperation between the authorities of the two nations will be imperative if chaos is to be avoided, for nothing could be more disastrous than for the exchange accounts of the two nations to pull against each other. This, however, raises wide questions of policy which are beyond the scope of this article.

THE GOLD RESERVE ACT OF 1934

SATURDAY, JANUARY 20, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10 a.m., pursuant to adjournment on yesterday, in room no. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Glass, Wagner, Barkley, Bulkley, Gore, Reynolds, Byrnes, McAdoo, Adams, Goldsborough, Townsend, Walcott, Carey, Couzens, Steiwer, and Kean.

The CHAIRMAN. The committee will come to order. We will now endeavor to proceed with the hearings as rapidly as possible, for it is important that we conclude them at the earliest possible moment.

Senator WALCOTT. Well, Mr. Chairman, I have a number of requests from persons who wish to be heard, and——

The CHAIRMAN (interposing). I also have a large number of requests from people, in the shape of telegrams and letters, from all parts of the country, stating that they want to be heard on this measure, but we would be here all summer if we were to attempt to let everybody come before the committee who has something to say, or at least thinks he has something to say.

Senator BARKLEY. That is very true, Mr. Chairman.

The CHAIRMAN. I know of quite a number of people who have ideal plans that they want to submit to the committee, people who know how to finance the affairs of the Nation but who are unable to pay their own rent. [Laughter.]

Senator BULKLEY. I guess there can't be any doubt about that.

The CHAIRMAN. I do not think we need to bother much about them. But I want to suggest that if it is possible for us to fix a time limit on these hearings I think it would be desirable to do so, so that I can answer this great number of inquirers that we have our time taken up now. I am merely suggesting to the members of the committee that if you think it advisable to fix a limit on the length of these hearings, it would relieve me a good deal.

Senator BARKLEY. I certainly agree with the suggestion made by the chairman of the committee.

Senator WAGNER. Wouldn't it be possible for us to close them this evening?

Senator BARKLEY. I was just going to offer a motion that these hearings be closed when the committee adjourns Monday.

Senator GOLDSBOROUGH. Mr. Chairman, I think that would be entirely too early.

Senator CAREY. Mr. Chairman, there are a lot of people here who ought to be heard, and you cannot possibly hear them by Monday.

Senator BARKLEY. How do you know they ought to be heard? Of course, we all know that there are a lot of people who want to be heard.

Senator WALCOTT. Well, take a man like Professor Tugwell, who is credited with the authorship of this bill. We ought to have him before us and find out what the facts are.

The CHAIRMAN. Well, we could get him by Monday.

Senator GORE. I think we ought to make all possible speed with the hearings, but of course we ought to get all available important information.

Senator WALCOTT. This is the most important bill that has come before the Congress since the Civil War, and being of such great importance to the people of this Nation it ought to be properly considered.

Senator BARKLEY. Why is it the most important bill since the Civil War?

Senator WALCOTT. Well, if you destroy the central bank why isn't it the most important piece of legislation that has been proposed since the Civil War?

Senator BARKLEY. I do not agree with the suggestion that it will destroy anything.

Senator WALCOTT. Well, I think all that you need to do is to consider the terms of the bill pending before us.

Senator BARKLEY. I cannot see it as being that at all.

The CHAIRMAN. I think we should fix a limit on our hearings, otherwise we might be here all summer. If we were to try to hear everybody who expresses a desire to be heard, we would certainly be here all summer and then some time thereafter.

Senator TOWNSEND. I think we should hurry along with the hearing as rapidly as may be reasonably possible, but to attempt to fix a definite time to shut off the hearings I think would be a little risky, at least to attempt to do it today.

Senator McADOO. Mr. Chairman, in view of the situation I suggest that the question of fixing a time limit on the committee's hearings go over until Monday. I think we might better attempt to settle it then.

Senator WAGNER. Mr. Chairman, that question might go over to the end of today's hearing, but I should think we could at that time fix a limit. I agree with the chairman that there are numerous requests from people who express a desire to be heard on the bill, for I have any number of requests myself from persons who wish to be heard. But I think in many cases we know what a given person will say, almost as well as if he had been before us.

Senator WALCOTT. Don't you think that Professor Tugwell ought to be heard?

Senator WAGNER. Do you say he is the author of the bill?

Senator WALCOTT. I am so informed, though of course I do not know about that.

Senator McADOO. Mr. Chairman, let us take up the matter of fixing a time limit on the committee's hearings at the end of the day.

The CHAIRMAN. Do you want to make a motion now, Senator Barkley?

Senator BARKLEY. I will wait until later on in the day, Mr. Chairman, but I do suggest now that if we do not make any more progress today than we made on yesterday, at the end of the day we will be about where we started.

Senator McADOO. I think we ought to have a limit on the hearings, but I do not think, in view of the large number of requests, by letter and telegraph, and I have something like 50 requests at least, that we should try to settle it at this moment. However, I might say that I am not going to recommend that these people from whom I have requests shall all be heard by any means, because we all know about what they will say. I think the committee, in the exercise of its power of selection, a little later on might better decide that matter, as the statements before the committee develop. We can then much better decide whether or not and how much we should limit the hearings, and who should be permitted to come before the committee.

Senator KEAN. Senator McAdoo, if you will speak a little louder we down here at this end of the table would be able to hear you and know what is going on.

The CHAIRMAN. Gentlemen of the committee, we will proceed now with the hearings. Mr. T. R. Preston, of Chattanooga, Tenn., president of the Hamilton National Bank of that city, will speak for the United States Chamber of Commerce.

STATEMENT OF T. R. PRESTON, PRESIDENT OF THE HAMILTON NATIONAL BANK, CHATTANOOGA, TENN.; REPRESENTING THE UNITED STATES CHAMBER OF COMMERCE

Mr. PRESTON. Mr. Chairman and gentlemen of the committee, the United States Chamber of Commerce has written their views on this matter, and they are in very brief form and I have a sufficient number of copies so that each member of the committee may have one.

I desire to say that the United States Chamber of Commerce represents all types of business, located in all sections of the United States.

Senator TOWNSEND. Did they have this bill before them when they were considering the matter?

Mr. PRESTON. Yes; this matter was considered by a large and representative committee, after some study of the bill. We did not have very much time to make a study of the subject, but in the limited time at our disposal we went into the matter as fully as possible. There are three members of the committee here, including Mr. Gephart, of St. Louis, and he and I will be very glad to answer any questions you may ask, if we can. I might explain at the outset that this is the layman's viewpoint, for none of us profess to be experts on the subject.

Senator TOWNSEND. That explanation sounds good to me, for we certainly want to hear from some laymen who have had practical experience.

Senator COUZENS. Mr. Preston, what you propose to present to the committee has not been passed upon by all of your members, has it?

Mr. PRESTON. Not by all of the members of the United States Chamber of Commerce, but by all of the board of directors, composed of some 48 or 50 members.

Senator COUZENS. Under your theory of operation you are supposed to send out a referendum, aren't you?

Mr. PRESTON. Under certain conditions we are.

Senator COUZENS. And therefore you cannot speak here now for all of your members.

Mr. PRESTON. I cannot. But I can speak for the board of directors of the United States Chamber of Commerce.

Senator WAGNER. In other words, for 48 members.

Mr. PRESTON. Yes, sir; for about 48 members.

Senator BARKLEY. Were all of those 48 members here and did they pass upon this subject?

Mr. PRESTON. Yes, sir; they did on yesterday, and practically every one was present, some 40-odd men.

The CHAIRMAN. You may proceed with your statement, Mr. Preston.

Mr. PRESTON. This is the statement of the board of directors of the Chamber of Commerce of the United States made in support of policies formally given to the chamber by its organization members in favor of a gold basis for American currency. The statement relates to the monetary proposals now before Congress, and was unanimously adopted by the board members in regular session, January 19, 1934.

The chamber has declared that the question of a sound national monetary policy is paramount. It has urged establishment of the currency upon a gold basis, balancing of public budgets, and stabilization of exchange. It has sought avoidance of monetary experimentation, fiat money or price-index currency.

The President's message of January 15, and the monetary bill submitted to Congress, contain proposals of much merit. The suggestions that there be established a gold bullion standard and an equalization fund to steady exchange are in principle to be commended heartily. At the same time there are features of the bill that are open to question and require serious consideration.

Taking the main intent of the proposals to be the establishment of the currency firmly upon a gold basis, attention is directed to the following feature of the bill.

First. There is no assurance that, subsequent to the negotiation of international monetary agreements and the establishment of a definite par point for the dollar, a fixed and unvarying number of grains of gold will be designated as our standard measure of monetary value. We suggest the incorporation of a provision to the effect that a definite number of grains of gold, as the par point of the dollar, shall be fixed by proclamation when suitable international monetary agreements are negotiated, and that thereafter administrative action shall be addressed to the maintenance of all forms of the currency on a parity with such standard dollar but without power to vary its gold content.

Second. The provision barring redemption of currency in gold, except under regulations of the Secretary of the Treasury when approved by the President, apparently fails to impose a definite obligation that gold or gold bullion must be given in redemption of currency

when necessary to keep all forms of it upon a parity with the standard gold dollar once established. This needlessly would provide grounds for misgiving or possible alarm as to the value of one or more forms of the currency in circulation after stabilization. Great powers exist to utter currency without any designated gold cover. The assurance that parity will be maintained by the release of gold when necessary for that purpose does not mean that gold need be given upon a mere demand nor that gold will be in large demand. A requirement to maintain the gold parity of all forms of our currency by release of gold when necessary for that purpose, can be surrounded with sufficient statutory safeguards to prevent abuses and avoid dissipation of reserves.

Third. The establishment and maintenance of a gold-bullion standard is not dependent upon the surrender of the title of the gold reserves held by the Reserve banks. The bill provides for such a surrender of title in return for "certificates" which are secured by gold but which do not specifically assure their exchangeability for gold upon request of Reserve authorities. The material point involved in the current situation is not that the title to the gold be with the Treasury, but that after devaluation of the currency there will be a surrender to the Treasury of such net profit as may result therefrom. The relinquishment of such profit is advisable in the interests of the Reserve System and of the Government. It would provide the Treasury with funds for the stabilization fund and for other purposes.

The surrender of the actual gold, combined with the broad powers the bill proposes to vest in the Treasury, presents the possibility of weakening the Federal Reserve System and impairing its utility. This is not necessary in connection with stabilizing the currency. We recommend that the bill be changed to provide that the Federal Reserve System, in surrendering to the Treasury the so-called "profit" resulting from devaluation, shall retain title to its gold reserves under carefully devised restrictions upon its rights to release such gold.

Fourth. The purposes and methods of operation of the proposed stabilization fund should be more expressly stated, and there should be excluded all power not directly necessary for the stabilization of the dollar in foreign exchange.

Fifth. The chamber has steadily advocated that the Federal Reserve System in its relations to the expansion and contraction of currency and credit should have and should maintain an independent status. The bill should be tested from the point of view of assuring such independence. We further recommend that provisions be placed in the bill which assure that power will be left to the Federal Reserve banks and Board to expand and contract the volume of currency in accordance with the demands of trade and in accordance with provisions of law to be adopted requiring a suitable minimum cover of gold against all forms of Federal Reserve currency.

Sixth. In efforts to secure stability of the currency it is axiomatic that every endeavor must be made to bring the budget of the Government into balance as expeditiously as possible, which in itself will secure protection of the currency and maintain the credit of the Government.

The CHAIRMAN. Mr. Preston, do you wish to add anything to that statement?

Mr. PRESTON. That is all that I wish to say. Mr. Gephart, of St. Louis, is here, and if you or the other members of the committee wish to ask any questions he and I will try to answer them.

The CHAIRMAN. Are there any questions by members of the committee?

Senator McADOO. I should like to ask Mr. Preston one question: Some of the testimony that has been presented here seems to be predicated upon the theory that a devaluation of gold will lead to a very broad expansion of the currency, possibly to an inflation of the currency in very material amount, as a result of this process. Haven't we a safeguard against that in the amendment to the Agricultural Act?

Mr. PRESTON. I am not familiar with that amendment.

Senator McADOO. I was going to read it to you. It provides——

Senator COUZENS (interposing). Mr. Chairman, cannot this be dealt with in executive session?

Senator McADOO. Pardon me for just one moment, Senator Couzens. The Thomas amendment to the Agricultural Act provides, or at least I offered an amendment which gave the Federal Reserve Board, by a vote of five of its members, and with the approval of the President, the power to increase the lawful reserves of the member banks from time to time to such extent as they might deem necessary. Now, Mr. Preston, doesn't that vest in the Board, with the approval of the President, adequate power to check inflation?

Mr. PRESTON. Whether it is adequate or not I am not prepared to answer, but of course it gives the power you mention.

Senator McADOO. Suppose they were about to run away, as they did in 1929, the rediscount rate could not control that situation, could it?

Mr. PRESTON. That is quite true.

Senator McADOO. But if the Board should increase the reserves from 15 percent to, say, 30 percent, or 50 percent, you would then impose a tremendous and most effective check upon inflation.

Mr. PRESTON. That is true.

Senator McADOO. Now, for the first time, that power resides in the Board—I mean to accomplish that purpose. Wouldn't that answer the objection being made of the possibility of inflation if this bill would be enacted into law?

Mr. PRESTON. Our committee did not think it would answer it fully, but to some extent.

Senator McADOO. Did they consider that matter?

Mr. PRESTON. No; they did not consider it, except in the most casual way.

Senator BARKLEY. Governor Black of the Federal Reserve Board and Governor Young of the Boston Federal Reserve bank both stated in the hearings we have had heretofore, on yesterday and the day before, that insofar as the currency operations of the Federal Reserve System, its expansion or contraction, were concerned, that they would go on just as they always have; that this would in no way interfere with the issuing of currency, or the expansion of the currency according to the needs of business, or the contraction of the currency. Do you disagree with that view?

Mr. PRESTON. No; I do not.

Senator BARKLEY. That being the case why do you state here before the committee that this bill will interfere with the freedom of the Federal Reserve System?

Mr. PRESTON. I think, if you will pardon me for referring to the paper, you are speaking now of the gold that belongs to the Federal Reserve System.

Senator BARKLEY. I am speaking of the power of the Federal Reserve Board and of the Federal Reserve banks to issue currency.

Mr. PRESTON. Under certain conditions they have very great powers, but we contend it ought to be covered by gold to some extent.

Senator BARKLEY. Under the present law, without regard to this bill, they can issue an indefinite amount of money based upon gold certificates, and they need not have any gold at all. And it so happens that they now have about a billion dollars of gold certificates upon which the currency is predicated. They could substitute gold certificates as a basis for all of their currency if they saw fit to do it. They haven't done it, but that doesn't interfere.

Senator WALCOTT. Governor Black specifically stated that those gold certificates were without redemption, and that you could not exchange them into gold, that they would not form a solid foundation back of any other issues by the Federal Reserve, and therefore public confidence in these new issues would be destroyed.

Senator BARKLEY. Well, it has not been destroyed.

Senator WALCOTT. No; because gold certificates today mean gold, but these new certificates would mean nothing.

Mr. PRESTON. That is what our board members thought.

Senator WALCOTT. Governor Black made that quite clear.

Senator WAGNER. As a matter of fact, outside of international trade what need is there for gold?

Senator WALCOTT. To have and to leave it there in case of trouble.

Senator WAGNER. Well, don't you have the thing itself in the Treasury?

Senator BARKLEY. It will be in the Treasury. It is just a technical matter. The title to this gold, as long as we are going to be on the gold standard, is there as a base for all of our money. Don't you think, Mr. Preston, as a matter of fundamental principle the agency that is responsible ultimately for all the currency that we have ought to possess the basis of that currency?

Mr. PRESTON. I presume you are right about that. I am really not prepared to answer.

Senator COUZENS. Mr. Chairman, let us have the next witness.

The CHAIRMAN. Mr. Gephart, do you wish to say anything?

STATEMENT OF W. F. GEPHART, VICE PRESIDENT OF THE FIRST NATIONAL BANK, ST. LOUIS, MISSOURI, AND A MEMBER OF THE COMMITTEE OF THE UNITED STATES CHAMBER OF COMMERCE

Mr. GEPHART. Mr. Chairman and gentlemen of the committee, I think the two primary points that the chamber have in mind are these: We are not opposed to the purposes of the bill. And we are not opposed to the surrender to the Treasury of the gold or the devaluation.

There are just two specific points in our minds primarily: The way the bill is now framed, doesn't it confer upon the Secretary of the Treasury unnecessary powers to accomplish the end in view?

And, secondly, whether it does not continue those powers after the objective has been accomplished?

We feel that these two points ought to be surrounded with more safeguards.

Senator GORE. Mr. Gephart, is it your view that when the gold content of the dollar is fixed it should be fixed finally so far as the proposed legislation is concerned, and not be left subject to administrative change?

Mr. GEPHART. Yes, Senator Gore; we feel that after stabilization has once occurred, administrative authority should not have the power to change it. If and when conditions may arise later on that might call for a change, we feel that authority ought to come from the legislative branch of the Government.

Senator BARKLEY. Do you think that every time another grain of gold ought to be put in or taken out, the Congress should act on the matter?

Mr. GEPHART. Not necessarily. There is a provision now, through the limitations established, and if it is possible to establish it between the limitations as now stated, very well and good. That is very desirable. But if it is not accomplished in that way, then we question very much the desirability of having administrative authority given full power to change that matter. It ought to come from the legislative branch of the Government.

Senator BARKLEY. If the President should issue a proclamation fixing the gold content of the dollar at any figure, and it should turn out within a reasonable length of time that he was mistaken about that matter and that it ought to be something else, you wouldn't give him the power to make the correction, is that your contention?

Mr. GEPHART. Not unlimited and continuous power for too long a period.

Senator BARKLEY. Not even within the 10-percent limit fixed in the bill?

Mr. GEPHART. I have no objection to that.

Senator GORE. The Constitution puts in the Congress the power to regulate money. This bill would give that power to administrative authority. Your contention is that the power to regulate money ought to remain where the Constitution put it, is that it, Mr. Gephart?

Mr. GEPHART. I think so.

Senator GORE. That is where the question comes to.

Mr. GEPHART. Making due allowance for the emergency situation, and realizing the necessity of granting new powers to the Executive to meet within certain limits those conditions.

Senator ADAMS. Mr. Gephart, I understood you to say at the outset that you were in accord with the purposes of the bill. That being so, I am wondering what purpose you now have in mind. It seems to me you differ with all the details of the bill which are put in to carry out the purposes of the bill.

Mr. GEPHART. Perhaps I did not make myself clear. We are in accord with the purposes of the bill so far as they have to do with stabilization as fixed within limits, and, secondly, with the purposes of the bill to turn over to the Government the profit now accruing from devaluation.

Senator ADAMS. But the purpose of the bill, as I get it, is that the President, instead of having it fixed, shall have a fluid point in there to permit him to change it as conditions may make it desirable and necessary. You do not want the Congress to grant that desire of the President, is that it?

Mr. GEPHART. We have no objection to the limits now established, and the administration of the matter by the President within those limits.

Senator ADAMS. What the President desires is that the gold shall be turned over to the Treasury, and you are opposed to that?

Senator BARKLEY. Mr. Gephart, you speak of the limitations now imposed. Do you mean by the present law or by the bill that is before the committee?

Mr. GEPHART. The bill. After it is fixed we want it to stay there.

Senator BARKLEY. You do not want it changed any more, is that it?

Mr. GEPHART. Not necessarily to ever change it, but——

Senator BARKLEY (interposing). You want the matter to come back to Congress to get it changed; is that it?

Mr. GEPHART. Yes, sir.

Senator BARKLEY. That is a great compliment to the Congress, one that is not habitually paid to it.

Senator GLASS. Do I understand that the United States Chamber of Commerce proposes this plan as an alteration in the value of the dollar, or that it simply acquiesces in it?

Mr. GEPHART. We are not proposing it.

Senator McADOO. But you are not opposing it.

Mr. GEPHART. No.

Senator KEAN. Why do you think that the basis should be fixed at 50 to 60, instead of at 65 or 70, for instance?

Mr. GEPHART. We do not know whether 60 will accomplish the end or not, but inasmuch as that is now proposed, let us try it out.

Senator KEAN. I think it is too low.

Mr. GEPHART. Well, my personal opinion is that it is too low, but there is no way of now proving that one way or the other.

Senator COUZENS. Mr. Chairman, who is your next witness?

The CHAIRMAN. We are very much obliged to you gentlemen.

Mr. GEPHART. And we thank you for the opportunity to appear before you.

The CHAIRMAN. Mr. Vanderlip is here, and desires to go on to New York, and we will hear him at this time.

STATEMENT OF FRANK A. VANDERLIP, NO. 1107 FIFTH AVENUE, NEW YORK CITY

The CHAIRMAN. Mr. Vanderlip, you have studied this bill and are acquainted with the subjects covered by it. You have gained your information by reason of years of experience and study, as I gather?

Mr. VANDERLIP. Yes, sir.

The CHAIRMAN. What has been your banking experience and what are your views in regard to this bill?

Mr. VANDERLIP. My banking experience was in connection with the National City Bank of New York, which I entered in 1901 as vice president, and was elected president in 1909 and continued in that position until 1919. I had previously had experience as Assistant

Secretary of the Treasury, and I have all my life been interested in the subject of currency.

Now, Mr. Chairman, do you want me to proceed?

The CHAIRMAN. The committee would like to have your views regarding this measure, its desirability, its need, and its practicability.

Mr. VANDERLIP. So far as taking over the gold from the Federal Reserve banks is concerned, it seems there can be no two opinions about that. To take it over and pay for it in a gold certificate, which on its face declares it to be a warehouse receipt, knowing that that very plan, simple enough it is true, was to mean nothing, it seems to me would be an anonymous operation.

The set-up of the \$2,000,000,000 stabilization fund would be a necessary thing if there were not some other way to guard our monetary stock against invasion through the operations of the British stabilization fund.

That, as you know, amounts to \$1,750,000,000. Its sole purpose is to manipulate foreign exchanges, without any relation whatever to foreign trade. It is a manipulative fund in the hands of an economic general, and is operated solely in the interests of England. As I have said a number of times before, I regard it as dangerous as military airplanes crossing our borders without any aircraft guns to meet them.

To set up a \$2,000,000,000 fund of gold in this way would, however, mean a sterilization of that gold. There would not be very much of it used. It would be, in a sense, a circulating fund. If you bought gold with it, you would only be adding to your gold, and I believe there is a very much better way of handling the whole situation. Perhaps the best method would be for me to briefly outline what I think might well be done.

I emphatically agree with the view expressed by Senator Gore, that the power to issue and control money should lie with the Government, and not elsewhere. I would take from the Federal Reserve banks the right of currency issue. I would take that right from the national banks eventually. It could not be done at one stroke, because it would mean that they would have to sell the bonds that are back of their currency, and they should not, perhaps, be sold in the present condition in competition with issues by the Government itself.

I would set up an arm of the Government. It would not exactly be a central bank, because it would have no capital, and would never receive deposits of any kind. It should have the power of currency issue, currency that is legal tender, that is redeemable in gold at the rate at which we eventually stabilize the dollar, and gold should always, under all circumstances, be obtainable in exchange for that currency at that rate, but for one purposes, to settle foreign trade balances.

If you will put that limitation on the gold standard, you can go back to a permanent gold standard. If you go back to such a gold standard as we had, where your monetary base can be augmented or reduced by international capital movements, you will go back—

Senator McADOO. Or manipulation.

Mr. VANDERLIP. Or manipulation, speculation in foreign exchange, or operations of the stabilization fund—you will certainly go back to an impermanent gold standard.

I have called this institution the Federal Monetary Authority, because it is not exactly a bank. The functions of this institution

would be very simple. As I say, it never could receive deposits, so its only liability on its balance sheet ever would be the notes which it had issued, and I would permit the issue of those notes, redeemable in gold, as I say, without a legal specification of what the gold reserve should be.

That would be following the example of the Bank of England and the Bank of France, and most central banks. To fix a definite minimum gold reserve places a dead line, which is not a good thing to do, and is not a real protection.

Senator GLASS. Does not the Bank of England fix a minimum of gold that may not be exceeded except by Act of Parliament?

Mr. VANDERLIP. For a part of its issue; not all of it.

Now, I would permit this bank to do the following lines of business—

Senator McADOO. Mr. Vanderlip, before you get off the currency phase—

Mr. VANDERLIP. I am still on it.

Senator McADOO. I wanted to ask a question.

Mr. VANDERLIP. I am proposing to take the power of issue away from the Federal Reserve banks, but I would want to continue them in the full performance of the functions for which they were organized; that is to say, they would continue to be central reservoirs of reserves for member banks. They would continue to discount self-liquidating commercial paper.

Now, if the power of currency issue is taken away from the banks, they must have some recourse where they could get currency to enable them always to rediscount, so I would put upon this central organization the obligation always to rediscount paper for the Federal Reserve banks. That paper would always consist of—

Senator McADOO. Do you mean member banks now, or Federal Reserve banks?

Mr. VANDERLIP. Federal Reserve banks. It would first have to go through the same course as it does now. The bank would make the loan—

Senator McADOO. This would be a rediscount agency for Federal Reserve banks?

Mr. VANDERLIP. Yes, sir; and that would be the only manner in which it could loan money. So, the Federal Reserve banks would be enabled to continue their present function of being in a position always to rediscount for member banks.

I would permit the institution to buy and sell gold in a free world gold market, which would naturally, were there no prohibitions, be established in New York.

I would permit the bank also to buy and sell silver bullion. Silver would be no part of the redemption of dollars, but it would be an addition to the reserve back of them.

I would permit the purchase or sale of bank acceptances bearing the names of two banks; of short-term Treasury paper, with not more than six months to maturity. I would not permit this institution to invest in long-term Government bonds. Finally, I would permit it to buy and sell foreign exchange. There is a complete list of the functions.

Now, let us see how the thing would operate. On the first day of its existence it would take over all the gold, the gold in the Treasury,

and, through the Treasury, the gold in the Federal Reserve banks. It would pay the Treasury for that, its notes, at the new stabilized rate of so many grains to the dollar. The Treasury would——

Senator WALCOTT. Which would be gold certificates.

Mr. VANDERLIP. No, sir.

Senator WALCOTT. Those new notes are not gold?

Mr. VANDERLIP. The new notes would be the notes of the Federal Monetary Authority.

Senator WALCOTT. But with the right of redemption?

Mr. VANDERLIP. Always with the right of redemption.

Senator WALCOTT. You did not state that.

Mr. VANDERLIP. But, remember, redemption for only the one purpose of furnishing gold to settle foreign exchange balances; not for hoarding, and not for capital movement.

Senator BULKLEY. Mr. Vanderlip, are you conceiving a fixed gold content of the dollar, subject to change only by Congressional action?

Mr. VANDERLIP. Preferably, yes, sir. Of course, this plan could operate with a fluctuating gold content, as contemplated in the commodity dollar, but it would not at all be necessary, as I think I can explain as I go along, to have such a commodity dollar. I think the advantages of a commodity dollar can be gained without the disadvantage of a fluctuating gold content of the dollar.

The CHAIRMAN. Who would be the officers of this central authority?

Mr. VANDERLIP. That, of course, is for you gentlemen to decide, but I have set up a tentative scheme like this. There should be seven directors, and, as they are high executive officers of the Government of the United States, they must be appointed by the President of the United States with the advice and consent of the Senate. I would, however, have this limitation, that three of those officers should be chosen from a larger list submitted by the 12 governors of the Federal Reserve banks acting in concert. That would insure to the business world that there would be three men on that board who had banking experience and who were regarded by the banking community as experts.

I would provide that all members of that board had to divest themselves of financial interests in the same way that the Secretary of the Treasury must now so divest himself.

An amendment to that idea has suggested in very high executive quarters, that there should be 2 representing agriculture, 2 representing industry, 2 representing banking, and 1 at large, the 2 representing banking to be chosen as I have suggested.

It is doubtful, in my mind, if in the Government of such an institution one should adopt the soviet idea, really, of a representation by classes—a representation of agriculture, a representation of industry, and so forth. I would rather see the very best men selected to form an organization that would stand in finance as the Supreme Court stands in law.

Senator GLASS. Speaking of best men, do you think the best men may be found among those who are utterly ignorant of banking, and never had any experience in it?

Mr. VANDERLIP. No, sir, I do not, obviously.

I was proceeding to tell how the bank would begin operations. It would take over from the Treasury all the gold, paying the Treasury its notes at the new stabilized rate. The Treasury would then

hand on to the Federal Reserve banks payment for the gold taken from them, paid for at the rate of \$20.67 an ounce, the old rate. That would leave free in the Treasury notes of this new institution, to whatever amount was the difference between the old valuation of the dollar and the new valuation of the dollar. It would be somewhere in the neighborhood of one and three quarters to two billions of dollars, and would put the so-called profit from revaluation in the Treasury, where it certainly belongs, and put it there in the form of legal tender money.

The position of the bank at the end of that first day would be that it had out notes redeemable in gold, with the limitation that I speak of as to their redeemability, equal to the entire amount of gold, and those notes would, for the moment, be covered 100 percent with gold. Its operations from then on would consist of those functions that I have suggested—rediscounting for Federal Reserve banks; buying or selling gold; buying or selling silver; but I would put a limitation there. I never would permit to have more silver than equal in value to 25 percent of the gold it has. That would be a top limit.

Senator McADOO. You mean that the silver is a secondary reserve? Is that your idea?

Mr. VANDERLIP. It is an additional reserve. It is the same idea that was discussed, I believe, at the conference in London, of adding some silver to the reserves of central banks.

Senator McADOO. Symmetallic?

Mr. VANDERLIP. No; it is not symmetallic. A symmetallic reserve means that the dollar would be redeemable in a definite number of grains of gold, plus a definite number of grains of silver. Here we have a note that is not redeemable in silver at all.

Senator McADOO. You do not intend that at all.

Mr. VANDERLIP. It is a gold note.

The organization could then buy short-term Treasury notes and pay for them in its circulating notes. It could buy bankers' acceptances, or it could operate in the exchange market, and there could meet any onslaught of the British stabilization fund. Of course, it is not that fund alone. The Bank of France, not having a definite stabilization fund, has nevertheless operated in the exchange market in exactly the manner that the British stabilization fund has operated, and has operated very disastrously to us. The Bank of France brought here \$800,000,000 of deposits in New York. They formed part of the base for the expansion that led to the grotesque prices of the stock market. Bringing that capital here without any relation to foreign trade built up a currency base upon which bank credit could expand, and it helped in no small degree the great boom in stock prices.

A little over a year ago we saw the reverse of it. France was drawing gold out of here, gold that she had heretofore deposited in this way, again without any reference to foreign trade, but because she became alarmed about our maintaining the gold standard, and she almost forcibly put us off the gold standard. A year ago, just before we went off, gold was being withdrawn, and it was capital that had been deposited here at the most rapid rate steamers could carry it. Every gold-carrying steamer was taking all that insurance companies would insure. It is that same thing that broke down the

gold standard in England. A large amount of capital, in the form of deposits in London banks, came into the English situation.

They did not have employment enough for it at home. They loaned some \$400,000,000 to the German banks. The Hoover Moratorium was promulgated. The standstill agreement followed, and they could not get the money back from Germany. Their foreign depositors began to withdraw their money. I was in Paris, and saw landing at Le Bourget 10 airplanes a day, each bearing a ton of gold that France was withdrawing from England. That was what broke the gold standard, and it will break it again if you do not set up a gold standard that is guarded against capital movements, and that is really devoted to its primary function of settling international balances.

I think I have very briefly indicated the sort of an organization that I would propose. It is one that could really be set up very rapidly if you feel, as apparently Congress does feel, when it is talking of passing this legislation of such enormous import with 3 hours debate in the House—if you feel that there is any such hurry—I do not recognize the reasons for such hurry, but if you feel that there is, you could formulate the organization of such a Federal authority very quickly. You can capture this gold from the Federal Reserve banks in a logical way, and not by creating a lot of gold certificates which bear on their face a contract which you know is not good, and is not intended to be good. You could have all the effects of a stabilization fund without sterilizing the \$2,000,000,000 of gold, and you could have a control over the price level by the amount of currency and by the operations in the gold bullion market that would take place.

Senator McAdoo. Mr. Vanderlip, may I ask a question there? How much gold reserve do you think should be set up against the currency that you propose?

Mr. VANDERLIP. I doubt if anybody can say that absolutely.

Senator McAdoo. We have 40 percent.

Mr. VANDERLIP. Forty percent is our legal minimum. We have much more than that at the present time. We have seen the reserve of the Bank of England fall to 11 percent, and go to 60 or 70.

Senator McAdoo. I am speaking of the legal limitation. What do you think it should be?

Mr. VANDERLIP. I think there should be no legal limitation, but in practice I should think 50 or 60 percent, perhaps. But, as you worked along and found what the demand for currency was, you would find a level which, in the public mind and in the minds of the administrators of this bank, was about proper. But, as you could vary that level, you would accomplish what has been sought in the measure that was passed, varying the reserve that might be kept. You would meet all those situations.

Senator McAdoo. One other question. I gather from what you say—and I would like to know if I understand you correctly—that you regard gold as the base for currency of no great value so far as making the currency redeemable in gold for domestic transactions is concerned, but you do regard it of value as establishing the limit within which currency may be issued based upon gold.

Mr. VANDERLIP. Quite so.

Senator McADOO. And you think that the chief value of the gold is in settling balances in foreign exchange.

Mr. VANDERLIP. That ought to be its function, and you should never be able to invade it by hoarding, or by capital movements.

Senator McADOO. So that in domestic transactions you would have nominal convertibility into gold, but not an actual one?

Mr. VANDERLIP. It would be actual if you wanted the gold, not for domestic purposes, but for export, to meet an unfavorable trade balance.

Senator McADOO. Exactly.

The CHAIRMAN. How about the redemption feature?

Mr. VANDERLIP. Always redeem if the gold is wanted to meet a debit trade balance. Never redeem if it is wanted for hoarding, or if it is wanted for capital movement.

Senator McADOO. Or for purely domestic transactions.

Senator GORE. Do you think you could always distinguish between capital movement and the liquidation of international trade balances?

Mr. VANDERLIP. Yes; I think you could. That means setting up some machinery. They are attempting to do that now at the Federal Reserve Bank. It is being done successfully in some European countries, I think notably in Austria. I think Dr. Eilser, who I see is here, has intimate familiarity with the method by which that is accomplished in Austria.

Senator WALCOTT. Mr. Vanderlip, you would unquestionably stimulate the movement of gold internationally through a plan of that sort. Is there any possibility that you could safeguard it against a form of international hoarding? That is, we might let ours go on international trade balances, or for the purpose of stabilizing our money internationally. Is there any way in which we could protect ourselves, however, from, let us say, France hoarding that gold that she gets to settle international balances?

Mr. VANDERLIP. As a matter of fact, she would not get any.

Senator WALCOTT. She might.

Mr. VANDERLIP. It is conceivable, but we do have a favorable trade balance.

Senator WALCOTT. We happen to have there; yes. But take an illustration where we have not—at some times with England.

Mr. VANDERLIP. If we continue not to have a foreign trade balance, then we ought to lose gold. We ought to depress prices and make this country a better country to buy in and a poorer country to sell in, and right our foreign-trade balance. That is the way it would work.

Senator GLASS. Do you think, with practically prohibitive tariffs, we would long have a trade balance with any country?

Mr. VANDERLIP. I would hardly want to get into a discussion of the tariff, Senator.

Senator GLASS. No. It is a very dangerous thing. Mr. Vanderlip, of course, wise men change their minds and stupid men never do. In some respects you have not changed your mind, and in others you have. You have not changed your mind in that you have always favored a central bank. You opposed the Federal Reserve System, and were in favor of a central bank. Now you are in favor of a modified central bank which will not receive deposits, but will be

charged with the sole function of issuing currency. To what extent would you call that currency fiat money?

Mr. VANDERLIP. To no greater extent than Federal Reserve notes have been fiat money, or than any money that is issued redeemable in a metal, but in an amount more than the metal reserve that is back of it.

Senator GLASS. But Federal Reserve notes are redeemable in gold.

Mr. VANDERLIP. But they are in amount more than the gold on hand.

Senator GLASS. But they are, I say, redeemable in gold.

Mr. VANDERLIP. So would these be.

Senator GLASS. Just let me finish, please. They are redeemable in gold without restriction. You would make these notes redeemable in gold for a single purpose only. There is that difference. A Federal Reserve note cannot be called "fiat money," because it is based upon the security of the combined assets of all 12 Federal Reserve banks, which are considerable, if we count the 2½ billion dollars of United States bonds as good assets now.

But these notes—

Senator McADOO (interposing). May I interrupt there to suggest to you that they are also protected by the double liability imposed upon stockholders of the member bank.

Senator GLASS. I understand that. Yes; they are also protected by double liability of the stockholding bank.

Mr. VANDERLIP. And the endorsement of the Federal Reserve.

Senator GLASS. The endorsement of what?

Mr. VANDERLIP. The Federal Reserve banks would have to endorse the rediscounts that they passed on for re-rediscounting.

Senator GLASS. Yes; and I say that all of their assets, the combined assets of the Federal Reserve system, are behind these notes, and in addition to that they are specifically redeemable in gold. They are redeemable in lawful money at the Federal Reserve bank, but lawful money by statute has been made redeemable in gold, and they are specifically, textually, redeemable in gold at the Treasury. So that I do not see how anybody can say, although you did say, that they are fiat money.

Mr. VANDERLIP. Oh, I said they were not fiat money, sir.

Senator GLASS. That Federal Reserve notes were not fiat money?

Mr. VANDERLIP. I do not regard them as fiat money. Fiat money seems to me to be an issue of money with nothing but the credit of the Government behind it.

Senator GLASS. That is what I have always been taught, Mr. Vanderlip, but in November 1913, when you and I had the distinction of discussing this matter, let me read you what you did say.

Mr. VANDERLIP. In any event, I have learned a lot since 1913.

Senator GLASS. Oh, well, then, all right. [Laughter.] It might turn out—and some of us venture to have that apprehension—that in a little while you will have learned a lot about this, because then you said that "the currency is in fact a fiat money issue."

Mr. VANDERLIP. In a sense that is true. The money is issued by the Government in the first instance. It is not in the first instance a Federal Reserve note. At that time I was debating the question of the idea that it should be a Federal Reserve note and not a note of the Government.

Senator GLASS. Did you ever hear of a Government note, since the world was created, that could not be issued except upon the demand of a bank? You know that in the last analysis a Federal Reserve note is a bank note; it is not a Government note, because it cannot be issued except on demand of a bank.

Mr. VANDERLIP. Why, governments all over the world at all times almost, when they ran into sufficient budgetary deficits, have issued notes, not at the command of a bank but to ease their own financial condition.

Senator GLASS. Oh, no; but I say this Federal Reserve note cannot be issued except upon the demand of the bank.

Mr. VANDERLIP. Yes.

Senator GLASS. Therefore, the lie written into the statute that they shall be known as Government notes is a mere play upon words. You know they are not Government notes. You know that they will never reach the Government on earth for redemption.

Mr. VANDERLIP. Well, I do not know that that is particularly profitable discussion.

Senator GLASS. No; I do not think it is. I just want to call your attention to the fact that in 1913, Mr. Vanderlip, you were one of the most vehement advocates of the redemption of any currency in gold that I have ever encountered in all the born days of my life. Now you are a modified advocate of redemption or redemption in an extremely restricted way. In other words, you would let foreigners redeem in gold, but would not let an American redeem his note in gold.

Mr. VANDERLIP. Oh, by no means. The foreigner who moved capital into the country and wanted to get it out in gold could not do it. It is that very thing that has broken down the gold standard.

Senator GLASS. I do not think our gold standard was ever broken down. I have never seen, and people who are much wiser than I and who have made this problem a life study have never seen, any necessity for the United States to go off the gold standard.

Senator McADOO. Mr. Vanderlip, I was interested in your observation a moment ago as to the definition of fiat money—money issued by the Government without security. Now, would you say that United States bonds are fiat bonds?

Senator GLASS. They are now; yes.

Senator McADOO. I mean at any time. Was not the security for United States bonds identically the same as the security of the currency of the Government, that is, issued without anything back of it? Isn't that true?

Mr. VANDERLIP. You would hardly apply the word "fiat" to a bond. It is a Government obligation by fiat of Congress; yes.

Senator McADOO. Any bond issued, or a note of the Treasury, or any obligation of the Treasury is fiat?

Mr. VANDERLIP. Certainly.

Senator McADOO. To the extent that its security rests solely and absolutely upon the good faith and honor of the American people?

Mr. VANDERLIP. Quite certainly.

Senator McADOO. Now, suppose on the issue of that there was an issue of currency which had the circulation quality that the bond and the temporary certificate has not, based upon precisely the same certificate, the good faith and honor of the American people. Is one any better than the other?

Mr. VANDERLIP. Yes; in a sense. You can issue bonds in greater or less amount without upsetting your price level. If you issue circulating notes you have an effect upon your price level.

Senator McADOO. Isn't that one of the objects of this bill, to upset the price level?

Mr. VANDERLIP. It certainly is one of the objects of the—

Senator McADOO (interposing). And help the price level.

Mr. VANDERLIP. It certainly is one of the objects of the organization I propose, and with which you would have one of the very best means of raising the price level to the level of 1926, because you would have all of the manipulative forces that anyone has properly suggested to bring that about.

Senator McADOO. Yes, but you are making a restatement of what you have already said. I was confining my remarks to the currency at the moment, because I want to clarify it in my own mind. I always want to be informed, and I am asking for information. If you think there is a distinction between Government bonds and Government notes of circulating quality, payable on demand, would you say there was any distinction if the bond of the Government was used as the basis for the issue of currency, in other words, as security for the currency? Would that make the currency any better?

Mr. VANDERLIP. That, in the slang of the market, is "pig on pork". It is a man securing his note with another note of his own.

Senator McADOO. Precisely. Then they are the same, are they not? They are the same; they rest upon the same security precisely?

Senator GLASS. We are in that condition now, are we not, Mr. Vanderlip, of paying Government obligations with other Government obligations?

Senator McADOO. In other words, while we have money or notes that are legal tender, we have gone off the gold standard and we have in circulation fiat money?

Mr. VANDERLIP. I would not say that at all, Senator. There are four and a quarter billions of gold back of it.

Senator McADOO. You cannot draw a dollar in gold against it.

Senator WAGNER. That is a very inaccurate statement.

Senator GLASS. I think it is a very precise statement.

Senator McADOO. It is a statement of the situation.

Senator WAGNER. The gold is here.

Senator GLASS. But you cannot get it. What good is gold if you cannot get it? It is not any better than lumber.

Senator GORE. If you had it provided in there that if a man gets a bread ticket and cannot get bread on it, he would be just as well off as if he could?

Senator GLASS. He would be worse off, because he could see the bread and could not get it.

Senator BARKLEY. I think that is a very apt analysis. If they have it they want to see it.

Senator WAGNER. That has been the common experience.

Mr. VANDERLIP. Yes.

Senator BARKLEY. Then your theory, under any scheme that may be adopted, is that, while this currency should be theoretically redeemable, it ought not to be actually redeemable except in foreign transactions?

MR. VANDERLIP. There is nothing theoretical about its redemption. It is absolutely redeemable for this one purpose.

Senator BARKLEY. Yes. I mean for domestic purposes.

MR. VANDERLIP. And that is the only purpose that a gold standard ought to furnish gold for.

Senator BARKLEY. And to that extent you approve the provisions of this bill?

MR. VANDERLIP. Well, I would approve the provisions of no bill that did not recognize the necessities of a modernized gold standard which would be to avoid invasion by hoarding or by foreign exchange speculation or by the movement of internationally owned securities or the operation of a stabilizing fund.

Senator GLASS. Mr. Vanderlip, were we to adopt your scheme, what use would the Federal Reserve banks be beyond acting as mere agencies of your monetary commission here in Washington?

MR. VANDERLIP. It seems to me that they would be used and have the full use that they were designed originally to have. They would be central reservoirs for reserves, and they would be in a position always to rediscount eligible paper.

The CHAIRMAN. Provided they were approved by the superior authority. Suppose the superior authority should reject the eligible paper sent up by the banks?

MR. VANDERLIP. I would make it obligatory on the superior authority to rediscount eligible commercial paper than had already been rediscounted by the Federal Reserve bank, and with the additional guaranty of the Federal Reserve bank.

Senator McADOO. If it is mandatory to that extent it would be merely perfunctory and the machinery would be a new agency at public expense to carry on a new operation.

MR. VANDERLIP. No. It is perfunctory, but it is necessary because you have taken the power of issue away from the Federal Reserve.

Senator GLASS. You would abolish the Federal Reserve bodily then, would you?

MR. VANDERLIP. Oh, no. I would let its duties somewhat decrease perhaps, and maybe it would abolish itself in time, but I would not interfere with it.

Senator GORE. Mr. Vanderlip, I want to ask you one question. I was interested in the different points in connection with your new monetary institution. I think I appreciated the importance and the pertinence of the different points and their relation to each other, except this silver proposition. I do not see how it has any relation to it, and I wanted to know why you would let this institution buy and sell one commodity and not let it buy and sell cotton or wheat or zinc or lead.

MR. VANDERLIP. It does not necessarily have any relation to it. You can do this job well without silver at all.

Senator GORE. It just looks to me a little bit like a "silver to sop service" or "sop to silver" service; something like that.

MR. VANDERLIP. I think that is about what it is, sir.

Senator GORE. We had a farm board that did buy and sell cotton and wheat. We have Government agencies today that buy and sell cotton futures and wheat futures. If we get this we will start out dealing with silver and it will be pretty hard to resist the pressure for zinc and lead. You know, Oklahoma is a pretty big zinc and lead

State. It would be pretty hard to close the door in our face, you know.

Mr. VANDERLIP. You can drop out the silver.

Senator GLASS. I would not do that, because you might not get the votes of the silver side.

Mr. VANDERLIP. That is just what I have in mind.

Senator GLASS. Yes; I thought so. [Laughter.]

Senator McADOO. We knew that, but we did not think you would admit it.

Senator GORE. That was the silver lining to my interrogatory.

Senator GLASS. Silver lining to this cloud.

Mr. VANDERLIP. I do not say that the desires of the silver people are entirely selfish. I think there is a good deal of soundness in the idea of a larger use of silver for monetary purposes, but in this case you would have that larger use without in any way making silver a part of the redemption of the dollar.

The CHAIRMAN. What would be the difference, Mr. Vanderlip, between issuing currency by this authority that you mention, and issuing notes by the Treasury? Why should not the Treasury have this authority instead of this board?

Mr. VANDERLIP. Because I happen to know by experience that the Secretary of the Treasury has a good many duties. He is so busy that if you added to those all the duties, all the powers, all the great influence of a central bank, I think he would be quite swamped; and besides, I would rather see those duties discharged by a more permanent board than I would by one man politically appointed.

The CHAIRMAN. You could not utilize the Federal Reserve Board for that purpose instead of setting up a new organization?

Mr. VANDERLIP. No. I think this should be as independent an organization as possible, independent of political influence and quite as independent of organized banking influences.

Senator BULKLEY. Do you think there is any value in divorcing the stabilization function in some manner from the actions of the Treasury in connection with financing?

Mr. VANDERLIP. There would be great value in not divorcing them under this plan I propose, because the Treasury would at once be put in funds to the amount of 1 billion and three quarters to 2 billions, and in sound funds.

Senator BULKLEY. I was referring to the future operation of the stabilization function and whether you think that ought to be an independent function not connected with the Treasury.

Mr. VANDERLIP. Oh, no. The Congress in the first instance, and now the President under the authority of Congress, must state the point of stabilization, and under the idea I have proposed the exact point of stabilization becomes much less important, because you have got that variation of reserve under the notes, and I would not be much concerned whether the stabilization was at 50, 60, or 70, because I believe the price level could be influenced just as effectively, because whatever the dollar is redeemable in, only those dollars that are wanted to pay a foreign trade balance can get the gold, and it would become of far much less moment the exact point at which you stabilize it, and I think you can stabilize once and for all and not have the prospect that you are going to stabilize again after you have seen how it worked this one way.

Senator GORE. Mr. Vanderlip, don't you think this pending bill centers in the hands of the Secretary of the Treasury powers that are more or less antagonistic? Isn't it a good deal like the legislative, executive, and judicial powers, all in one?

Mr. VANDERLIP. I quite agree with that statement, Senator.

Senator GORE. I think that is the fundamental objection to this.

Senator GLASS. I was going to say, Mr. Vanderlip, there is one provision of the bill which causes one or two of us at least very considerable concern. That provision of the bill creates a banker of the Secretary of the Treasury practically.

Mr. VANDERLIP. And he would have a lot of things to do and power to do them that a banker could not do.

Senator GLASS. Yes; and many things that a banker would not do, many improbable things. For example, he could discount my note. Some bankers might not be willing to do that. Maybe they ought not to do it.

Senator McADOO. You mean a wise banker would not.

Mr. VANDERLIP. Why, I know he ought not to do it.

The CHAIRMAN. Do you favor or not section 10 of the bill, Mr. Vanderlip—"for the purpose of stabilizing", and so forth?

Mr. VANDERLIP. If the committee would take 2 minutes I would like to read a statement or a letter which I wrote to the President setting forth what I think they should do. I can do it in a few minutes. Shall I read it or not?

The CHAIRMAN. Very well; read it.

Mr. VANDERLIP (reading):

The plan to establish such a Federal Monetary Authority, it seems to me, meets the views of those who wish to establish a commodity dollar, without actually undertaking to vary the gold content of the dollar, the efficiency of which is doubted in the more orthodox quarters. The plan would also, I think, give great satisfaction to the advocates of a larger use of silver, without committing either to bimetallism or sym-metallism. It creates a directive power which would have in its hands all the various manipulative forces for raising the price level and maintaining it. The Board of the Federal Monetary Authority, through its power to control the rediscount rate, to conduct open market operations in short-term Treasury paper and bank acceptances, its ability to deal in foreign exchange and to purchase silver bullion, has concentrated all those forces that have been suggested as likely to be efficient in raising and maintaining the price level. It offers large opportunity for inflation, without resort by the Government to a fiat money printing press.

Senator GLASS. Let me suggest that you write the President another letter and say you did not mean "inflation", you meant "expansion", because "inflation" is a terrible word.

Mr. VANDERLIP. I adopt your amendment. [Reading:]

The plan would collect a large fund of silver bullion which might, in the event of a war in the East, be as effective at some particular moment as a naval fleet. It makes necessary the establishment of a specific stabilization fund to counteract the menace of the British stabilization fund. It avoids the establishment of the proposed two-billion-dollar gold stabilization fund which is proposed in the pending legislation and which I agree is vitally necessary, unless a gold standard is established which is insulated against either the reduction or augmentation of our monetary gold base by international capital movements. It escapes the disadvantage of partially sterilizing the proposed two-billion-dollar stabilization fund, and would place that two billion of gold in a vital position as a base for the issue of a future larger amount of sound and acceptable currency to be issued by the Federal Monetary Authority.

It returns to the Government all power of issuing and controlling the value of money, which I believe is historically the right and proper function of government and is both a sound and politically proper prerogative of government.

Now, the only further word I would say is I have drawn a bill that embodies this plan with my ideas. If it would be of any use to the committee I will leave a copy of it.

The CHAIRMAN. Do you want to have it in the record?

Mr. VANDERLIP. Yes, Senator.

The CHAIRMAN. Then let it be entered in the record.

(The proposed bill submitted by Mr. Vanderlip is here printed in full as follows:)

A BILL To establish the Federal Monetary Authority, and to control the currency of the United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

POWERS OF THE FEDERAL MONETARY AUTHORITY

SECTION 1. (a) The Federal Monetary Authority established hereinafter in this Act shall have power—

(1) To issue circulating currency in such amounts as the Authority from time to time finds necessary to carry out its powers. Such certificates shall be legal tender at face value for all debts, public and private, and shall be in such denominations not less than \$1 and in such size and form as the Authority may prescribe. All other authority of law to issue or reissue currency, except circulating notes of national banking associations shall cease on the fifteenth day after the date of approval of this Act; and the authority to issue or reissue circulating notes of national banking associations shall cease three years after the date of approval of this Act.

(2) To purchase gold bullion, bars, and coin at home or abroad at such prices as the Authority shall fix from time to time; and to sell gold bars at the prevailing market price. No such sale of gold bars shall be of an amount of gold less than \$5,000 in value. All forms of lawful money heretofore redeemable in gold or silver shall hereafter be redeemable only in circulating currency issued by the Authority. The circulating currency of the Federal Monetary Authority shall be redeemable in gold at the price fixed by the President of the United States under authority of Congress as the gold equivalent of the dollar, but only if such gold is for use, subject to such regulations as the Authority may prescribe, in settlement of debit balances in the international trade of the United States, and for no other use. For the purposes of this paragraph, the Authority shall maintain a supply of gold in fine bars of such weight as it may determine. Such bars shall bear the stamp of the United States. All gold in the custody of the Authority shall be converted into fine bars. After the date of approval of this Act no gold shall be coined, except for foreign countries in accordance with the Act of January 29, 1874 (U.S.C., title 31, sec. 367); and no gold bullion, bars, or coin or silver bullion or bars shall be exchanged or deposited with, or purchased, paid out, or delivered by the Government, except through the Authority as herein authorized.

(3) To purchase silver bullion, bars, and coin to the prevailing market price but not in excess of \$1 an ounce; to sell such silver to the Secretary of the Treasury for subsidiary coinage in such amounts as the Secretary of the Treasury deems necessary; and to sell silver bars at the prevailing market price. The aggregate of such purchases of silver bullion and bars shall be at least one billion ounces, except that no purchase of silver bullion shall be made by the Authority at any time if at such time its aggregate holdings of silver exceed in value 25 per centum of the value of the gold held by the Authority.

(4) To rediscount for any Federal Reserve bank, at rates to be established from time to time by the Authority, any notes, drafts, bills of exchange, or acceptances, bearing the endorsement of such Federal Reserve bank, and heretofore eligible as collateral security for Federal Reserve notes.

(5) To purchase and sell any interest-bearing obligation of the United States with a maturity from date of purchase not in excess of six months.

(6) To purchase and sell in the open market bankers' acceptances and bills of exchange bearing the endorsements of two or more domestic banks and eligible for rediscount by Federal Reserve banks.

(7) To purchase and sell foreign exchange.

(8) Hereafter to exercise the powers vested in the Secretary of the Treasury by section 11 (n) of the Federal Reserve Act, as amended.

(b) The Authority shall not receive current funds for deposit, exchange, or collection otherwise than for its own account.

FEDERAL RESERVE AND TREASURY GOLD

SEC. 2. All right, title, and interest in or claim of the Federal Reserve Board or any Federal Reserve bank or Federal Reserve agent, now or hereafter, to any gold coin, bars or bullion is hereby acquired by and vested in the United States. Payment for such gold coin, bars, and bullion, together with interest at the rate of 3 per centum per annum from date of acquisition to date of payment, shall be made with circulating currency issued by the Authority, at the ratio of \$20.67 an ounce. All gold coin, bars, and bullion and all gold coin, bars, and bullion now or hereafter held in the Treasury, shall be held for custody of the Authority and delivered upon order of the Authority. Transportation and other incidental expenses shall be paid by the Authority. Pending such time as the Federal Reserve notes in circulation are redeemed, the reserves, security, and deposits required by or authorized by law in connection with such notes may hereafter be maintained or payable in circulating currency issued by the Authority.

THE FEDERAL MONETARY AUTHORITY

SEC. 3. (a) There is hereby established an independent agency of the Government to be known as the Federal Monetary Authority. The powers and duties vested in or imposed upon the Authority by this Act or other law shall be exercised or performed by the executive officers of the Federal Monetary Authority at the direction of a board of seven directors to be appointed by the President of the United States, by and with the advice and consent of the Senate. One director shall be a director-at-large, and two of the directors shall represent industry, two agriculture, and two banking, and the group to be represented shall be designated by the President at the time of nomination. Each director representing banking shall be appointed from a list of not less than five nominees submitted jointly by the governors of the several Federal Reserve Banks upon request of the President.

(b) Directors shall be subject to removal by the President or by concurrent resolution of Congress. The board shall from time to time elect a chairman from among its members. There shall be a governor and one or more deputy governors of the Authority. The governor shall be the chief executive officer of the Authority. The board may function notwithstanding vacancies, and four directors shall constitute a quorum. Directors shall receive the same compensation as the heads of the Executive departments. The board shall meet at the call of the chairman or a majority of the directors. Directors shall devote their time exclusively to the duties of their office. No director shall hold, directly or indirectly, or have any financial interest in any financial, manufacturing or importing or exporting institution or establishment. Expenditures by the Authority will be allowed and paid upon presentation of itemized vouchers therefor, approved by the governor or by such director or officer of the Authority as may be authorized by the board for the purpose. The board may, without regard to the civil service laws and the Classification Act of 1923, as amended, appoint and fix the compensation of, and prescribe the duties of the governor, deputy governor and such other officers and employees, and may establish such agencies, utilize such voluntary and uncompensated services, and make such expenditures and regulations, as may be necessary to carry out its functions. Expenditures of the Authority for other than for administrative expenses shall not be subject to review by any officer of the Government.

(c) At such times as the President, or the Congress by concurrent resolution, may determine, the President shall cause an audit and report to be made to him of the operations of the Authority. Such audits shall be made available for inspection by representatives of the Banking and Currency Committees of the Senate and of the House. The President shall make public such audit and report if such action is consistent with the public interest.

(d) The net profits derived from the operations of the Authority, after deductions for such reserves as the Authority deems necessary, shall from time to time be covered into the Treasury upon direction of the President.

DECLARATION OF POLICY

SEC. 4. (a) It is hereby declared to be the policy of the United States to restore and maintain the normal purchasing power of the dollar, which shall, for the purposes of this Act, be the average purchasing power of the dollar for all commodities during the year 1926.

(b) The average purchasing power of the dollar for any period shall be ascertained from the index known as "The index for the purchasing power of the dollar in the terms of wholesale prices for all commodities" for such period, as compiled and published from time to time by the United States Bureau of Labor Statistics.

(c) The powers of the Authority shall be exercised to such extent and in such manner as, in the judgment of the Authority, will best effectuate the declared policy.

(d) There is hereby established in the Department of Labor a Price Index Commission to be composed of three Commissioners to be appointed by the President. No person shall be eligible for appointment as Commissioner unless he is an economist-statistician of recognized standing. It shall be the duty of the Commission to study the items and factors that should form the basis for the compilation of the price index designated in subsection (b), and from time to time with the approval of the President, to revise the basis of compilation of such price index in such manner as the Commission deems necessary in order that such price index may more adequately indicate the average purchasing power of the dollar.

EFFECTIVE DATE

SEC. 5. This Act shall take effect at such time as four of the directors of the Authority have qualified for office; except that this section and section 3 shall take effect upon the date of approval of this Act. Title III of the Act of May 12, 1933, is repealed.

SHORT TITLE

SEC. 6. This Act may be cited as the Currency Control Act of 1934.

Senator GOLDSBOROUGH. May I ask you a question?

Mr. VANDERLIP. Certainly.

Senator GOLDSBOROUGH. Would you give me your enlightened opinion as to what is the commodity dollar?

Mr. VANDERLIP. A commodity dollar is a gold dollar. It is redeemable in gold but not always in the same number of grains of gold. The object of the commodity dollar is to maintain a price index level so that the dollar will buy as much of the general market basket of goods in 10 years or a generation as it buys when you part with your money to buy an annuity or to buy an insurance policy or bond.

The theory is that by varying the gold content of the dollar you would, with practical mathematical exactness, vary the price level. I do not believe that that is true. It does tend in that direction, but there are other factors in the price level that must be taken into account, such as the philosophy of money and credit. I think none of us know what actually makes up the price level. It is too complex. The theory of the commodity dollar is to maintain that price level and to do it by the means of varying the number of grains that the dollar is redeemable in.

Senator GLASS. You never have believed in that theory, Mr. Vanderlip, unless, again, you have learned a great deal since 1913.

Mr. VANDERLIP. I assure you I have, Senator.

Senator GLASS. Because you stated in 1913:

Probably all perceive that there are some laws of nature that are unbending, even in the presence of legislative edict; that if we pass legislation that does not conform to such laws the result must only be to show the futility of such legislation.

I thought that was pretty sound doctrine at the time.

Mr. VANDERLIP. I have never been so complimented in my life, Senator, as to know that you were such a student of what I have said. [Laughter.]

Senator GLASS. Well, the fact is I was there and confuted all of your errors and agreed with all of your sound declarations.

The CHAIRMAN. We are very much obliged to you, Mr. Vanderlip. Senator Glass, do you want Dr. Anderson back?

Senator GLASS. Dr. Anderson himself expressed a desire to conclude his statement.

The CHAIRMAN. Mr. Warburg has to leave very soon, and he is down on our list. Mr. James P. Warburg.

STATEMENT OF JAMES P. WARBURG, VICE CHAIRMAN OF THE BOARD OF THE BANK OF MANHATTAN COMPANY, NEW YORK, N.Y.

The CHAIRMAN. Mr. Warburg, will you state your name and residence and occupation or profession?

Mr. WARBURG. My name is James P. Warburg. I am vice chairman of the Board of the Bank of Manhattan Co. of New York.

The CHAIRMAN. Have you examined this bill?

Mr. WARBURG. Yes, sir.

Senator KEAN. Mr. Chairman, I think Mr. Warburg might give a little more description of himself than that, because Mr. Warburg has been a representative at the Economic Conference as an adviser, and he also has had a very large experience in foreign exchange and also in dealings internationally all over the world. I think that ought to go into the record.

Mr. WARBURG. Thank you, Senator.

The CHAIRMAN. Have you examined this bill, S. 2366, Mr. Warburg?

Mr. WARBURG. Yes, sir. I have a brief statement in regard to it.

The CHAIRMAN. Very well; we will be glad to hear you.

Mr. WARBURG. Two days ago I testified before the House Committee on Coinage, Weights, and Measures. I prepared for this committee a short general analysis of the monetary problem and a compilation of supplementary statements. Copies of both are before you. The clerk is distributing them.

In regard to the President's monetary message, I commented as follows—I will read only a few paragraphs—

Whereas the phrase used by the President last summer, "a dollar of constant purchasing and debt-paying power" seemed to imply a dollar of variable gold content, I think it is important to note that in his message in opening Congress he used words which do not necessarily imply any such thing. These words were, "a medium of exchange which will have over the years less variable purchasing and debt-paying power for our people than that of the past." These words represent a purpose with which I can and do declare myself in thorough sympathy. A modernized gold standard such as I have proposed would, I believe, give us a medium of exchange whose purchasing power would vary less over a period of years—considerably less—than under the old pre-war gold standard.

In his monetary message to Congress 4 days ago the President made three major recommendations; that all monetary gold be taken over by the Treasury; that the limits of revaluation be fixed between 50 percent and 60 percent of the old dollar; and that a large part of the profit due to revaluation be set aside as a fund to stabilize the dollar and the national credit.

I advocated an equalization fund as early as last March. I have always felt that any profit from devaluation should go to the Government.

When I returned from London at the end of July, I made a written report in which I stated, "The entire recovery program is jeopardized by uncertainty and doubt in the monetary field", and recommended, among other things:

"That the United States Government should desire not later than October 1 to fix the amount of devaluation desired, in order to bring about the necessary adjustment of the price level, allowing for a subsequent variation of not over 10 percent."

That is exactly what is now proposed. In July the range would have been 65 percent to 75 percent, instead of 50 percent to 60 percent. I thought then that a 30 percent devaluation would be sufficient, and I still think that a devaluation of 40-50 percent may work some injustice and may store up future trouble, but I bow to the judgment of the President. He has listened to all sides and weighed his decision with the greatest care. In any case I welcome the removal of the two extremes of uncertainty.

First. To all intents and purposes it seems to me that the bill endows the Secretary of the Treasury with most of the powers usually vested in a government note-issuing institution and with several other powers as well. To some extent this is doubtless necessary in an emergency, but I see nothing in the bill to limit it to an emergency.

One cannot precisely define what constitutes an emergency. But one can define one's ultimate aim. I believe the bill could be improved if it were made to state that our purpose is to return to a fixed ratio to gold, and that to this end we seek the establishment of an improved international gold standard. (I have set forth a detailed proposal for an improved gold standard in my testimony before the House committee.) If our ultimate aim were so defined, the powers conferred upon the Secretary of the Treasury could then be made to lapse when this ultimate aim is realized.

Second. It seems to me that the bill should state that it is not the intention to take the note-issuing power away from the Reserve System in whole or part. Personally I should like to see the bill amended so as to contain an outright repeal of the "greenback section" of the Thomas amendment, the mere existence of which, to my mind, constitutes a menace to the national credit. It will be difficult enough to keep expenditure within the limits of bearable taxation. The success of our program depends upon not over-straining the Government credit. The best barometer of strain on government credit is the market for government bonds. Support of this market by a stabilization fund may in moments of extreme emergency be necessary, but it must be recognized that such support is tampering with the barometer. The issuance of Thomas amendment notes would not be tampering with the barometer but smashing it.

Third. I expressed before the House Committee my views as to the danger of attempting to set too low a range for the dollar. I do not believe in the whole theory of raising prices by depreciating a currency, but, having embarked upon this theory for better or worse, I do believe that Congress should now support the President in carrying out his purpose. He has reached his conclusion as to the range within which stabilization is to take place, after the most careful consideration of all the circumstances. We are in his hands and we should strengthen his hands. That is why, in spite of a personal conviction that the range selected is too low, I do not urge altering it.

Fourth. It seems to me that the bill contains the elements of a drastic change of the Federal Reserve System. I have said that I believe the Government should take the profit from devaluation, but I question gravely the advisability of taking the Reserve bank's gold and giving them gold certificates, which are only convertible into gold at the option of the Secretary of the Treasury, and in an amount of gold to be fixed by him. I believe that monetary gold should be owned directly by the note-issuing authority and that the note-issuing authority should not be purely under political control nor yet purely under private control, but should be vested in an

institution owned partly by the public—not necessarily the banks—and partly by the Government. I believe that our Reserve System and our whole private banking system are in need of careful and thorough overhauling, but I do not think that this can be done by rushing through an emergency bill.

Fifth. Finally, if money lies at the root of our economic troubles, which I for one think is only partially true, then, as 90 percent of our money is check money, it would seem to me that 90 percent of the cure of our money ills must lie in a properly reconstituted banking system rather than in any measure that deals purely with the metallic base and the paper circulating medium.

Senator GLASS. Mr. Warburg, you know, of course, that the Federal Reserve banks are operated by representatives of the public, in large measure; that is to say, of the 9 directors, 3 of them may be officials of banks only; 3 of them must represent commerce, agriculture, and industry, and the remaining 3 may not be bankers at all, but must represent the public. So that the banks are in large measure operated by the public and in the interests of the public?

Mr. WARBURG. May I explain what I had in mind, Senator, when I made that statement? I prepared this in anticipation of what I thought Mr. Vanderlip would say, because he said it before the House committee the other day.

I do not believe it is wise to give the note-issuing power to any purely political body, even such a permanent body as Mr. Vanderlip has suggested. Nor do I believe that the note-issuing power should be vested in a private corporation. There is the danger of control or abuse by "big business", which must be avoided, just as much as the danger of political abuse must be avoided. That is what our Federal Reserve Act attempted to do. I believe that we can improve the Federal Reserve Act, and that we should do so, but only after the most careful study, and not as an emergency job to be done in a few days.

Concretely I would suggest tentatively two ideas.

I. A change in the composition of the board, so that it would consist of three appointed members—a governor, vice governor, and secretary general. These three officials to be appointed for long terms and to receive much higher salaries than at present. (This involves no additional expense, because the salaries of three members are saved.) The governor and vice governor each to have two votes.

In addition to the three appointed members, 4 out of the 12 Federal Reserve bank governors would compose the board. The governors would serve in rotation, for 6-month periods, which means that each bank governor would serve as a board member for 6 months in every 18.

This would have the following advantages:

1. The higher salaries would help to engage the best possible men.
2. The present conflict between board and banks would be largely eliminated.
3. It would necessitate having at least one strong deputy governor in each Reserve bank.

II. The other idea, which I would put forward tentatively, is that it would be better to have the ownership of the Reserve banks in the public, rather than in the banks of the country. One might consider having two classes of stock—one held by the public, and the other by

the Government. The public's stock would have limited voting rights, and a limited return, while the Government's stock would receive the bulk of the profits after the public received a fair minimum dividend. There are any number of possible variations to such a scheme—many of them have been in use. I should not want to make a specific suggestion without studying all the available material, but I do wish to record my opinion now that this line of thought seems to me more fruitful than the creation of a Government note-issuing authority. And I also think that ownership by the public direct, is more in line with present-day thought than ownership through the private banks.

The CHAIRMAN. Are there any questions?

Senator ADAMS. May I ask a question, somewhat diverting from that? The Government has been pursuing a policy of lowering the purchasing power of our dollar abroad. That has been the policy, has it not? That is, that has been the national policy, to keep the dollar down and to keep corresponding currencies of foreign nations up. I am going to ask you to give an explanation of what advantage to us rests in that policy. That is, I think naturally the query is, why it is to the advantage of the American people to have the purchasing power of their currency kept down.

Mr. WARBURG. Senator, I am not a good advocate of that policy, because I have opposed it consistently since last March. The theory is that by depreciating a currency you can raise the price level and raise it to any desired point, and then keep it there by fixing the currency at a given point. That is a very large subject. I do not believe that raising the price level by itself does anyone any good. I think that a rise in prices unaccompanied by a corresponding rise in income and wages does harm rather than good; and I see nothing in a policy of depreciating the currency which raises incomes and wages.

Furthermore, such a policy cannot and will not eliminate discrepancies in the price level. One of the great advantages claimed for farmers from this policy was that it raised the price of wheat. It also raised the price of overalls. You cannot raise the price of one kind of thing without raising the price of other things.

I believe there was a certain benefit to be obtained in the initial stages, because of stimulating speculation, as it energized the whole latent mass which had lain dormant for a long time. Unfortunately when that was done the theory took hold that if a little depreciation did so much good in raising prices, more depreciation would do a lot more good, and we have proceeded on that theory. I do not believe in it.

Senator BULKLEY. What about the stimulation of export trade?

Mr. WARBURG. Any country that depreciates its currency can benefit at the expense of other countries until other countries do it too.

Senator BARKLEY. That is what happened when England depreciated her currency in 1931.

Mr. WARBURG. Yes; that is what happened. I do not think that was the intention of England; but that is what happened.

Senator BULKLEY. Do you think we will gain anything in export trade by what we have done?

Mr. WARBURG. Yes; I think we probably have.

Senator McADOO. It provokes retaliation?

Mr. WARBURG. Yes, sir.

Senator McADOO. Let me ask you this question: If the depreciation of the dollar in foreign exchange is beneficial in stimulating our trade, does it not also depreciate purchasing power for obtaining the necessities of life?

Mr. WARBURG. Yes; if you decrease the value of the dollar and decrease its purchasing power, it would mean that the standard of living goes down.

Senator McADOO. And the reverse is true. The more you put up the price level by depreciating the dollar, the lower the value of the wage-earner's income and the salaries or fixed income of individuals in the Nation?

Mr. WARBURG. Yes; and the ultimate end of such a policy is that you prostitute labor.

Senator McADOO. In other words, the history of all these movements, as far as I can see it, has been that eventually the rise in wages and fixed income is not commensurate with the increased cost of the necessities of life and of commodities generally.

Mr. WARBURG. There is always a tremendous lag in wages and income.

The CHAIRMAN. Do you believe we ought to raise the price level?

Mr. WARBURG. I believe we should raise the price level if such a rise is accompanied by a corresponding rise in incomes and wages. I believe the only way to do that is to increase the volume of business done in expectation of profit.

Senator McADOO. In other words, if the stimulation can be based upon solid economic ground and that stimulation is initiated by the artificial stimulation that is necessary to start the engine, so to speak, then of course it would be beneficial; otherwise not.

Senator GLASS. In other words, you believe in this fundamental doctrine that Mr. Vanderlip believed in before he learned so much, that it is idle to undertake to pervert or avert the unbending laws of nature?

Mr. WARBURG. Not only that, sir, but I think Mr. Vanderlip unconsciously, probably, plagiarized that very paragraph from James Garfield who made a statement in 1874 in which he used practically the same words. [Laughter.]

Senator GLASS. And Garfield plagiarized it from other economists who had advocated it for the last hundred years or more.

What measure of soundness, Mr. Warburg—and I hope you are a worthy son of a worthy sire—do you find in a policy that would fictitiously raise the price of any single product and thereby increase the cost to a hundred thousand people for every one person engaged in the production of that particular article?

Mr. WARBURG. What measure of what, did you say, Senator?

Senator GLASS. What measure of soundness do you find in a theory of that sort?

Mr. WARBURG. I do not know that I could define the degree of soundness. I would say it contained injustice.

Senator GLASS. Injustice is unsound, is it not?

Mr. WARBURG. Yes.

Senator WALCOTT. Mr. Warburg, you said in this preamble that you were in favor of passing this legislation because you believed the President had given it careful consideration, and, therefore, it must

be wise. In view of what you have said since you wrote this, it seems to me that you must have at least mental reservations with reference to this bill. Is not that true?

Mr. WARBURG. I have very definite, not only mental, but stated reservations as regards the bill.

Senator WALCOTT. But in your statement here you imply that you would vote for the bill as is, practically. You mean that you would not vote for it unless it is modified? Is that what you mean?

Mr. WARBURG. Are you referring to the statement I made before the House Committee?

Senator WALCOTT. Yes.

Mr. WARBURG. I had not read the bill, then. I so stated.

Senator WALCOTT. I lost that point. Then you are definitely in favor of changing this bill before it is passed, along the lines that you have suggested here?

Mr. WARBURG. Let me put it in this way. I would not like to recommend to this committee that they refuse to do something that the President wants to do, but I would recommend very urgently that the committee ask the President to reconsider the bill and allow it to be amended along the lines that I have indicated.

Senator BARKLEY. The amendments which you suggest seem to me to be rather vague and indefinite. What particular amendment do you urge?

Mr. WARBURG. I think the suggestions I have made are quite definite. The first suggestion is that these powers are conferred on the Secretary of the Treasury without any reference to their being emergency powers. It is not easy to define what is an emergency. Therefore I suggest limiting the life of the power to the interregnum which must exist between now and the time we attain our ultimate goal; and that is not defined.

Senator BARKLEY. Do you favor the bill insofar as it takes title to this gold?

Mr. WARBURG. That is the next point, sir.

Senator BARKLEY. Would you make it an emergency title to be surrendered back to the Reserve banks when the emergency is over?

Mr. WARBURG. No, sir; that is a separate point. The first point is that I should like to see the ultimate purpose defined and the transfer of powers limited——

Senator COSTIGAN. What length of time do you suggest?

Mr. WARBURG. I would not suggest a length of time. I was asked by the House committee the other day whether it would not be well to limit these powers to a period of a year or 2 years, and I said I did not think so, any more than I would think it wise to say to the President, "The fleet will be destroyed in 3 years." We do not know how long the war is going to last.

Senator McADOO. How would you determine under this provision, if it were adopted, when the stabilization had occurred so that your suggestion would become operative? Would you leave that to a proclamation by the President?

Mr. WARBURG. Yes. Possibly there should be a time limit as well as a definition of purpose.

Senator McADOO. We have in the Reconstruction Finance Corporation Act a limitation upon the time within which the Corporation

may do certain things. Would it be preferable to set some time with a view to having it renewed from time to time by the Congress?

MR. WARBURG. The equalization fund is a weapon of continuous economic defense rather than of warfare. It would be unfortunate if the time limit expired while Congress was not in session. Therefore I had in mind specifically defining the purpose and limiting the life of the powers to the time necessary to accomplish that purpose.

Senator McADOO. You would fix a time limit that would expire while Congress is in session?

Senator BARKLEY. Why not leave it to Congress? Congress can change what happened heretofore in the way of legislation.

Senator McADOO. Suppose this economic warfare that you have mentioned should provoke hostilities by force; do you think it would be wise to leave this thing uncontrolled in such a fashion if some extreme situation of that kind should develop?

MR. WARBURG. Let me put it in this way. I do not think it is appropriate for me to suggest how you should limit or define the power.

Senator McADOO. I should like to have your judgment.

MR. WARBURG. In my judgment the bill does not correlate the giving of the power or the time limit to the purpose. I think it would be better if it did.

Senator GLASS. That particular provision of the bill is said to be presented for one purpose. It provides that the Secretary of the Treasury can be a general banker. Would you concur in the suggestion that we say "for the sole purpose of stabilization"?

MR. WARBURG. There is this possibility, Senator, that you could treat differently the creation of the equalization fund and the rest of the bill. I can see more reason for complete power in the equalization fund than I can in deciding how much gold the Reserve System is going to get on the gold certificates.

Senator GLASS. If any.

Senator WAGNER. With reference to the last question that Senator McAdoo asked you, "Suppose the economic warfare that we are about to engage in should lead to other difficulties—"

Senator McADOO. I used a suppositious case; I did not mean to say that it would.

Senator WAGNER. Has not England been engaged in an enterprise of that kind for some time?

MR. WARBURG. Has it not had an equilization fund?

Senator WAGNER. Yes.

MR. WARBURG. Yes, Senator.

Senator WAGNER. For the purpose of curing the depression?

MR. WARBURG. I would not so define it.

Senator WAGNER. Was it not for the purpose of aiding its export trade?

MR. WARBURG. No. I think the purpose was to prevent excessive fluctuations in the currency and to maintain a level in foreign exchange consistent with the best interests of the whole country, not only in foreign trade.

Senator BARKLEY. That was done by undertaking to boost the price of other money as compared with the English pound so as to prevent these fluctuations and so as to enable them to engage in foreign trade, or any other purpose that they thought was for the interests of the British nation. Is not that true?

Mr. WARBURG. I think it is commonly thought to be true, but I do not think it is true.

Senator GLASS. The English deny that that is true.

Mr. WARBURG. I think there is some truth in it, to this extent, that there have been times when the fund was probably used to keep the pound from rising too fast. But if you take the average operations of the fund I think you will find that they have endeavored to prevent excessive trends either up or down and they have much more often supported the pound than depressed it.

The CHAIRMAN. Soon after they went off the gold standard the pound was something like \$3.20 and it went up to \$5.20. So they did not succeed.

Mr. WARBURG. They could not succeed in regulating the pound in terms of dollars when we shook our bag of tools.

Senator WAGNER. You said something about natural rights that are not to be interfered with. I think that was the idea. Have we not got to allow economic law—

Mr. WARBURG. I do not think I made such a statement, Senator, except that I endorsed the Vanderlip-Garfield statement.

Senator WAGNER. It was rather an indefinite expression. I wondered whether you meant by that that there is to be no governmental interference to see that we have a fair distribution of wealth. That is really what you had in mind, is it not?

Mr. WARBURG. No, sir. If this Government is going to set out to redistribute wealth and can do so in any intelligent way—

Senator McADOO. And a just way.

Mr. WARBURG. And a just way—that is something that I would not object to, even though I would be one of those that it would be taken away from.

Senator WAGNER. I sympathize with your view that the monetary policy alone will not do it. What we have got to do is to get purchasing power in the pockets of the people.

Senator GOLDSBOROUGH. Will you not let him finish his statement?

Senator WAGNER. I thought you had finished.

Mr. WARBURG. I practically had. I do not think this is a just method of redistributing wealth.

Senator McADOO. It would not be a factor in redistributing it.

Senator BARKLEY. What does this bill do that redistributes wealth?

Mr. WARBURG. I did not mean this bill.

Senator BARKLEY. That is what we have before us.

Mr. WARBURG. I was asked a question, Senator.

Senator GOLDSBOROUGH. He was asked a question by Senator Wagner.

Senator WAGNER. I would like to pursue it by just one or two more questions.

The CHAIRMAN. Proceed.

Senator WAGNER. You stated that unless wages and income increased with prices there would be no benefit?

Mr. WARBURG. I said that there is no benefit in raising the price level unless such a rise is accompanied by a corresponding rise in income and wages.

Senator WAGNER. Is it not true that one of our difficulties has been that there was a great disparity between the income and wages paid and the price of commodities?

Mr. WARBURG. You mean, that wages were too low?

Senator WAGNER. Exactly.

Mr. WARBURG. Yes; but that is not affected by this bill.

Senator WAGNER. I understand that. But in order to secure, for instance, a better wage distribution so as to keep on a par with the rise in prices, some way must be provided by which labor can secure higher wages.

Mr. WARBURG. I do not think there is any monetary method by which that can be done.

Senator WAGNER. What I understood you to say was that you were opposed to governmental intervention of any kind. In our N.R.A. we are attempting by section 7 a to give labor an equality of bargaining power. It is an essential thing which, if given, will enable labor to secure a better share of the profits of industry.

Mr. WARBURG. That is a realm of economics in which I am an utter ignoramus. I do not know what labor should or should not get.

Senator GLASS. When we start to redistribute wealth I am going to insist that Senator Wagner divide his wealth with me, to test his sincerity in wanting to redistribute wealth.

Senator WAGNER. I do not suggest any such method, but we have had difficulties before by not distributing proper profits in the form of wages. I think everybody agrees to that. We ought not to make the same mistake.

Senator GOLDSBOROUGH. Was not some of it distributed and then wasted?

Senator BARKLEY. Yes; a few laboring people bought automobiles—and that is a terrible thing.

Senator WAGNER. They invested some of it in securities, also.

Senator KEAN. Do you believe in a free gold market?

Mr. WARBURG. A free gold market would be a logical outcome when you have international stability.

Senator KEAN. The decrease in the value of the dollar simply means that you lower the wages of everybody employed, and as long as they get the same dollar—

Mr. WARBURG. Yes, eventually; it does not mean instantly.

Senator KEAN. No; but it means that prices of what they have to eat and what they have to drink and what they have to wear and what they have to clothe themselves with and pay for rent, and so forth—when those things go up, the consequence is that labor loses.

Mr. WARBURG. I agree with the principle of that, but I do not want to go as far as Professor Warren goes.

Senator KEAN. I agree with you; but at the same time we have hammered the gold dollar down in every way we could for the last 6 months. We have sold exchange, we have bought gold, we have done everything we could to decrease the value of the dollar. In my opinion there must be a recovery as soon as we stop that. From the present level of the dollar, what do you think it ought to be adjusted at?

Mr. WARBURG. I have stated, sir, that I do not want to take issue with the President in fixing the range that he has selected, because he has considered a lot of factors that I did not even know existed. My own feeling is that that range is too low and that the equalization fund will have great trouble in swimming upstream.

Senator KEAN. What will be the injury to the United States, from your standpoint, in fixing the ratio of the dollar too low?

Mr. WARBURG. What will be the injury?

Senator KEAN. Yes.

Mr. WARBURG. The first injury would be that your equalization fund would buy a lot of foreign exchange and lose its shirt on it.

Senator KEAN. And the Treasury, not being experts in foreign exchange, is apt to do that?

Senator GOLDSBOROUGH. Let him give his answer.

Senator WALCOTT. He will answer you fully.

Mr. WARBURG. It might take the form of embargoing gold or foreign exchange purchased abroad. That would mean that your equalization fund would be sterilized and could not operate. This is all on the assumption that the level is too low, and you eventually accumulate here all the gold in the world, and whatever ills there are in the maldistribution of gold would be accentuated to that extent, and you would dislocate your whole scheme.

Senator KEAN. At what price, from your knowledge—and I think you have a good deal—do you think it ought to be stabilized?

Mr. WARBURG. That is a question I would really rather not answer, Senator, because I feel this way, that beyond an initial advantage to be gained from cutting loose from gold, which I should like to have seen done only with the express statement that we were going back to gold, but just wanted to disconnect ourselves from other economies; I do not see much to be gained by devaluation at all, unless it is undertaken by international agreement, and then I do not know whether it is an effective way of raising world prices, or not.

Senator KEAN. Devaluation of gold simply means that temporarily everything in the country is out of kilter, and that then gradually they readjust themselves to the same levels, isn't that about right?

Mr. WARBURG. Assuming that your devaluation is at the wrong level; yes, sir.

Senator BARKLEY. Has it not been seriously out of kilter, even without any devaluation?

Mr. WARBURG. Yes.

Senator BARKLEY. It could not be much worse.

Mr. WARBURG. Oh, yes; I think it could, sir.

Senator BARKLEY. By spreading the basis of gold as the foundation for money? Could it have been much worse?

Mr. WARBURG. The primary fallacy in the devaluation theory, to my mind, is that in the first place I do not think money is at the root of our troubles. I think the break-down of the international monetary standard was an effect felt long after the war. After it happened, it contributed to greater disorder. I do not think that the failure of our money standard is what caused the depression. If you start from that hypothesis, then you cannot cure the depression by monetary means.

Senator BARKLEY. Do you believe that there is enough gold in the world to operate adequately as a basis for currency?

Mr. WARBURG. Yes, sir; and I have set forth exactly how I think that should be done, in my published letter to Senator Borah, excerpts of which are before you.

Senator BARKLEY. I do not care to go into that.

Senator GORE. Under any system—all the gold there is is all the gold there is.

Mr. WARBURG. I did not hear you, Senator.

Senator GORE. I say, under any system—this or any other—there is not any more gold than there is.

Mr. WARBURG. No; but you can economize in the use of gold, Senator.

Senator GORE. And increase its efficiency. Do you think that the amount of gold just fixes and pegs the amount of production in trade and business?

Mr. WARBURG. No, I do not.

Senator GORE. Are there not various methods of contributing to the efficiency of gold?

Mr. WARBURG. Yes.

Senator GORE. I want to ask you another question. It reverts back to an observation made a moment ago. Suppose we do devalue down to 50 cents. If that should realize the theory and the hopes of some people and double prices, would it not cut wages in two, really, for the time?

Mr. WARBURG. Certainly; on that hypothesis it would.

Senator GORE. Then this stabilization fund involves both weapons of offensive and defensive warfare. I would like to know what your expectation is if we embark on this warfare. Is it that this country and other countries, out of regard for mutual dangers and damages, would agree upon some sort of rational adjustment, or would we embark on a warfare where zero would be the goal. Money would be devalued here, devalued in England, and devalued in France. It is a game that two can play at, and zero is the end if they persist. What would be your expectation as to the reaction that would sooner or later happen?

Mr. WARBURG. Both possibilities are inherent in the bill. I do not believe that our creating an equalization fund will lead to a currency war or race for zero, for the simple reason that every nation is in the position where it had more to lose by cutting its own throat than it has to gain by increasing its export trade.

Senator GORE. Or cutting the other fellow's throat.

Senator GLASS. Mr. Warburg, the avowed purpose of all this business is to restore commodity prices to the level that prevailed in 1926. We were on the gold standard then, were we not?

Mr. WARBURG. Yes, sir.

Senator GLASS. Without devaluation.

Mr. WARBURG. Yes, sir.

Senator GLASS. Why did prices reach that level in 1926, when we were on this so-called "vicious gold standard," and may not, in the ordinary trend of economic development, reach a higher level without devaluation?

Mr. WARBURG. I have asked that same question many times, Senator, and I have never gotten a satisfactory answer. I have also asked how it was possible, during the period from 1923 to 1929, to store up the trouble that we did for ourselves, with a relatively stable price level. That is a question which the people who believe in the devaluation theory cannot answer, at least satisfactorily to me.

Senator GORE. At that point, I would like to ask you a question. The price level of 1926 was agreed upon because it is a sort of average

of price levels from 1922 to 1929. During that period we had the price level of 1926, and what happened?

Mr. WARBURG. I do not understand your question, Senator.

Senator GORE. I say, the price level of 1926, which seems to be the ideal, and which seems to have some sort of sanctity in the minds of some people, is agreed upon because it is the average, so to speak, of prices from 1922 to 1929, and that is the goal that we want to go back to. We had the prices of 1926 in 1926, and we had the average prices from 1922 to 1929, and it certainly was no safeguard against an unspeakable disaster. Why can it be assumed that returning to a price level that was at least followed by this disaster would prove in the future some sort of safeguard against a like debacle?

Mr. WARBURG. I do not think that can be assumed.

Senator BARKLEY. What is your theory as to the cause of the drop in the price level at a time when all the important countries of the world were on the so-called "gold standard," including the United States, England, France, and others?

Mr. WARBURG. It is a long story, which I can attempt to put in a nutshell in this way.

The change of the millions of people involved in the war, not only in the trenches, but in war activities, from peace-time occupation to war-time occupation, was a tremendous factor. The enormous stimulation of aggregate demand for all kinds of commodities due to the war; the pouring out of money for nonproductive and purely destructive purposes; after the war, the going back into peace-time occupation of those millions; the fact that you had erected plant capacity for war purposes which was not needed for peace-time purposes—all this dislocated production, consumption, labor, and working capital. The dislocation due to that switchover into war activity and back again put a strain on the monetary system which that system was unable to support. That does not mean that the monetary system caused the whole thing. It does mean that the break-down of the monetary system contributed to the confusion that then existed.

I do not say that because the monetary break-down did not cause the whole mess, I would like to reestablish the same monetary system. I think we can improve the monetary system, but I do not think we can prevent depressions or cyclical booms by monetary means, because the secret to that is putting the brakes on in time of boom.

Senator BARKLEY. Why, in your opinion, did it require 11 years after the war was over for this debacle to occur, traceable, as you say, to the war? I think the war did have a lot to do with it, but why was the evil day postponed?

Mr. WARBURG. Because we took all kinds of aspirin and other medicines to make us feel better. We engaged in foreign lending operations. We imposed reparations on a country that could not pay them, and then we proceeded to lend her the money for purposes for which the money was not used, and the money is eventually used to pay reparations. That is a circular proposition which can go on for a certain length of time, and then it breaks down.

Senator BARKLEY. Economists tell us that during the period from 1922 to 1929, which might be regarded as a normal increase, the business activity and commercial activity of the world increased at an average of 3 percent a year, while the increase in monetary gold, or all

gold, as a matter of fact, amounted to about 1.7 percent per year. Do you think that disparity between the increase in the quantity of gold in the world, and the increase in the commercial activities of the world, had any bearing upon this depression, or the drop in price level, or the collapse of the world monetary systems?

Mr. WARBURG. The figures as to the production of gold, sir, are very unreliable. You can get one kind of figures, and you can get the other kind of figures, and I do not know what to believe. All I can state as an opinion is this. I am not satisfied that there is a shortage of monetary gold in the world. Secondly, I am not satisfied that a shortage of monetary gold will necessarily depress prices if proper economy is exercised in the use of gold.

Senator BARKLEY. If there is a shortage of monetary gold, and if, over a period of years, the increase in monetary gold does not keep pace with the increase in world business, will that not make it necessary to spread out over a larger surface the basis of gold for the circulating moneys of the world?

Mr. WARBURG. I am not sure I know what you mean by spreading over a larger basis. Do you mean that you have to use economies in the use of gold?

Senator BARKLEY. You would have to make a given quantity of gold produce more actual circulating money.

Senator GLASS. Mr. Warburg—

Senator BARKLEY. Let him answer that question.

Mr. WARBURG. You would have to widen the base of the pyramid.

Senator BARKLEY. Yes; which means devaluation.

Mr. WARBURG. Not necessarily. It might mean any number of several things. It might mean that you would withdraw your coin from circulation. It might mean you would reduce the reserve requirement. It might mean you would adopt a bullion standard. All those are economies in the use of gold.

Senator BARKLEY. You might reduce from 40 to 25 percent the gold reserve requirements in the Federal Reserve. One of the means by which you could do it would be to reduce the gold content of the dollar, so that, upon the basis of dollars as a reserve, you could have more money in circulation if that were needed by business.

Mr. WARBURG. Yes; you would have more money, but it is exactly the same thing as if you were to make 6 inches into a foot. You would be 12 feet tall, but it would not make you any taller.

Senator BARKLEY. It might bring about a readjustment between that foot and other things which it measures.

Mr. WARBURG. I do not see that, and I never have seen it.

Senator BARKLEY. If you made 6 inches a foot, then it would not take so many inches to make a yard, would it?

Mr. WARBURG. No; but you would be no nearer the ceiling.

Senator BARKLEY. No; but you would have more yards.

Senator GLASS. Mr. Warburg, do we do business with gold or on gold?

Mr. WARBURG. On gold.

Senator BARKLEY. So, it does not make much difference where the gold is impounded, whether in the Treasury or in the Federal Reserve system, if it operates as a basis upon which we operate?

Mr. WARBURG. No, sir; I cannot draw that conclusion.

Senator WAGNER. I remember in your letter you did say that one of the prime evils from which we are suffering now is a maldistribution of wealth. Do you recall that sentence?

Mr. WARBURG. He has been talking about the famine of money. I said we have no famine of money. We have a maldistribution of wealth.

Senator WAGNER. What do you mean by that?

Mr. WARBURG. I mean by that that the thing he is appealing to in the masses, namely, the perfectly natural desire on the part of anybody who has 25 cents in his pocket to have some more money, cannot be satisfied by anything you do to the currency.

Senator WAGNER. I agree with you. But you state that at the present time we are suffering from a maldistribution of wealth.

Senator GLASS. It means that you have more wealth than I have.

Senator WAGNER. What did you mean by that? That is something that ought to be remedied, is it not? Should it not be remedied, if there is a maldistribution?

Mr. WARBURG. I cannot answer that, because I do not know whether there is a remedy. I think we would have a better state if 90 percent of the wealth were not in the hands of 5 percent of the population, but I do not know—

Senator WAGNER. Exactly.

Mr. WARBURG. But I do not know any way to get it into the hands of the 90 percent of the population.

Senator ADAMS. Distribution of money is one thing, and distribution of wealth is an entirely different thing.

Mr. WARBURG. Yes.

Senator WAGNER. A better payment of wages, for instance, would do it, would it not?

Mr. WARBURG. It would tend in that direction, provided you do not kill the fellow who pays the wages.

Senator WAGNER. Heretofore you have admitted that there was a disparity in the profits earned and the wages paid, which provided a great surplus of income which was reinvested and caused an expansion which made difficulties for everybody. The purchasing power was not there to consume the goods produced by these expanded industries.

Mr. WARBURG. There have been both kinds of disparities.

Senator WAGNER. Senator Glass is amused, but I am interested in that question, because it causes suffering. It causes 15,000,000 people to be out of work, and causes 40,000,000 people to suffer from destitution and starvation just because of this maldistribution of wealth. That has caused our difficulty. Therefore I am interested in correcting it.

Senator GLASS. Why should the Senator say I am amused? I employ 172 people and pay them good wages. How many do you employ?

Senator WAGNER. Not as many as that. But when you made that statement I assumed—because I know your opinion is worth a great deal on these matters—that you must have had some idea. If there is a maldistribution of wealth it ought to be remedied.

Mr. WARBURG. Yes; but there are some evils you cannot necessarily cure.

Senator WAGNER. You mean that we shall continue with this destitution and these depressions?

Mr. WARBURG. You do not have to have destitution, because you can take care of that by relief.

Senator WAGNER. Is that the only way to do it?

Mr. WARBURG. I know no way in which you can redistribute wealth unless you can assume omniscience and omnipotence on the part of some great fellow.

Senator WAGNER. That is a terrible indictment of our present system, that we have to continue in this method, with this unemployment, suffering, and misery.

Mr. WARBURG. It does not follow that you have to have misery or unemployment.

Senator WAGNER. I say it should be corrected. I think it can be corrected. I feel very confident about it.

Mr. WARBURG. I say that can be corrected, but you cannot correct a fundamental maldistribution of wealth by any means I know of. There may be some.

Senator WAGNER. We will call it a better distribution of wealth. We can provide for a better distribution of wealth.

Mr. WARBURG. By creating employment?

Senator WAGNER. By creating employment and giving them fair wages.

Mr. WARBURG. Surely.

Senator WAGNER. That is not a very radical proposal, is it?

Senator CAREY. Senator Wagner, may I ask you a question?

Senator WAGNER. Yes.

Senator CAREY. Suppose you raise these wages by the issuance of more money. How are you going to do away with the disparity between agriculture and what the farmer buys?

Senator WAGNER. I have not suggested that by this money policy we can do what I want done. I have not suggested that at all. But if it is an evil which we have to remedy—and we are trying to remedy it—

Senator CAREY. We can raise wages, but we have another class here that we have to raise.

Senator WAGNER. Of course, agriculture. I agree with you on that.

Senator CAREY. We will not do it by issuing money.

Senator WAGNER. I did not say so. You misunderstood me. I did not say it was to be done by monetary means.

Senator McADOO. Mr. Warburg, on the question of maldistribution of wealth, which, of course, has no direct relation to the measure we are discussing, but since it has been injected here, I would like to ask your view on one point only. President Theodore Roosevelt startled the country about 1904, I think, or somewhere along there, by proposing in a speech he made, that there be a limitation upon the wealth any one individual might acquire. Do you think there is any virtue in that—I mean as to future policy?

Mr. WARBURG. It is an idea which, from the social point of view, appeals to me. I do not know what its full implications would be.

Senator GLASS. It was practiced in Greece 3,000 years ago.

Senator McADOO. But they did not have very much wealth there to divide.

Now, Mr. Warburg, one thing more. A very intelligent man the other day stopped me and talked to me about this bill, and he proceeded on the assumption that we were going to devalue gold to 50 percent. He assumed that we were going to do that, and establish a 50 percent gold dollar, or the equivalent, by dividing the number of grains in half, and creating two dollars for one of gold. He said that he would like to have me tell him what the effect of that would be upon the paper dollar. I said "What do you mean"? He said "Well, if it is going to result in doubling each paper dollar too, so that the man who owns that is going to get two dollars for one, I would look upon it with favor." I just wanted to know what you think the effect of devaluing gold to this point is likely to be upon the paper dollar.

Mr. WARBURG. It certainly is not going to give a man two dollars who has got one.

Senator McADOO. Of course not; but I am talking about the effect on him. Is he going to be benefitted by it?

Mr. WARBURG. It depends on his position. If he is a wage earner, I should say he would be hurt by it.

Senator McADOO. I am talking about his savings, or bank account.

Mr. WARBURG. Anybody who is a creditor in any sense is hurt by it. The only fellow who benefits by it is a debtor.

Senator McADOO. How is he benefitted?

Mr. WARBURG. Because he owes more money than is owed to him.

Senator McADOO. If he is a debtor today, I do not see that he is going to be particularly benefitted by this plan, because, unless he can earn more money, I do not see how he is going to be benefitted.

Mr. WARBURG. Put it this way. If he owns a house, and has a mortgage on it, the value of the house, assuming that this theory works goes up in dollars, and the mortgage remains the same in dollars, so that his equity is worth more and his mortgage is worth less.

Senator KEAN. But suppose he owns something else, and he is dependent upon that?

Senator McADOO. May I finish, Senator Kean?

Senator KEAN. Yes.

Senator McADOO. What would be the effect upon the collateral that the debtor has, for instance, against an obligation?

Mr. WARBURG. It depends upon whether it is a bond or a stock.

Senator McADOO. Both.

Mr. WARBURG. A share, according to the classic theory of inflation, is worth more, and a bond is worth less.

Senator McADOO. But suppose you have not got anything to pay the debt with now?

Mr. WARBURG. It does not give you something to pay with that you have not got before.

Senator McADOO. Exactly. It does not aid you. A man in such a position, of course, derives no benefit from it. A man who has a bank account, all in paper dollars, does not get any benefit.

Mr. WARBURG. It has always been a problem to me why he should.

Senator WAGNER. Mr. Warburg, if it does what it is stated it will do—and what seems to be conceded—and that is, raise commodity prices, is not that going to stimulate trade somewhat, and put a man to work that had not worked before, so that he will get some money that he did not have before? Is not that the likely thing to happen?

Mr. WARBURG. I do not see why a rise in prices should stimulate trade, unless profits increase at the same time. I do not see why an employer would put men to work if he simply had to pay more for his raw materials.

Senator ADAMS. You have to increase purchasing capacity.

Senator McADOO. He could not make a profit.

Mr. WARBURG. No, sir.

Senator WAGNER. What is your theory—that we must have low prices in order to be prosperous?

Mr. WARBURG. Ultimately what we want is a mass production of things for which there is a great human desire, at the lowest possible price.

Senator WAGNER. I think that is true.

Mr. WARBURG. In other words, the demand should be stimulated for necessities and for near necessities by lower prices.

Senator GORE. So that people can buy and use the things?

Mr. WARBURG. Yes.

The CHAIRMAN. The prices may be beyond the cost of production. Then what happens?

Mr. WARBURG. I beg your pardon.

The CHAIRMAN. Prices may be so low that the man who produces cannot get enough out of his product to pay the cost of production.

Mr. WARBURG. That means that production costs should be reduced. There is no point in reducing the cost of salt, for example, because people will not use any more salt anyway. But you can stimulate the greater use of certain things that are now too expensive—clothes, for instance.

Senator McADOO. They should be made cheaper.

Mr. WARBURG. Yes.

Senator McADOO. And in larger quantities, so that the reduced profit on the larger consumption will be greater than the profit on the reduced consumption at higher prices.

Mr. WARBURG. In other words, I do not think business recovery depends upon raising prices. I think some prices should be raised and some should be lowered.

Senator BYRNES. Mr. Chairman, I am very much interested in Mr. Warburg's statement, but I wonder if we cannot get back to the bill. I know he would prefer to express his views about the bill.

Senator McADOO. He has expressed them, I think, very intelligently.

Senator BYRNES. If he has concluded expressing them, I do not think he should be disturbed by the members going into other fields, because we have to get along with this bill.

Mr. WARBURG. There is one point I would like to stress with regard to the bill.

Senator BYRNES. I would like to have you do that.

Mr. WARBURG. That is the second paragraph of this statement which is before you in which I say I would like to see the bill amended so as to contain an outright repeal of the "greenback" section of the Thomas amendment. I state the reasons for that.

Senator GORE. I would rather try to repeal the law of gravity.

Senator BYRNES. I think your statement is a very clear expression of your views upon it.

The CHAIRMAN. We are very much obliged to you, Mr. Warburg.

**STATEMENT OF E. W. KEMMERER, WALKER PROFESSOR OF
INTERNATIONAL FINANCE, PRINCETON UNIVERSITY**

The CHAIRMAN. Professor, have you examined this bill?

Mr. KEMMERER. Mr. Chairman, I received your telegram yesterday afternoon to come down here, and I left a few hours afterwards and arrived here this morning. I had not seen the bill before, and so what I have to say will have to be based more on the general subject and on the President's statement of the plan. I have heard some outlines of the bill this morning, and I have had an opportunity to glance at it casually.

As the time is very limited, perhaps I had better start in this way. Recently I have made a public statement as to what I thought should be done in the direction of stabilization. That statement has been published, and is going out in book form today. I have a copy of it available for this committee if the committee is interested in it.

I also made a public statement, which was published in the New York Times a few days ago, as to my judgment concerning the President's stabilization plan. I can put a copy of that in the record, which gives my ideas and the reasons.

Now, perhaps I can summarize in just a few words my judgment upon this question. In the first place, I believe that a prompt stabilization on a gold basis is desirable. I think that the higher the rate at which we can stabilize the better, because I believe that the present low price level is but temporary anyway, and that in a moderate period of time, without any devaluation, we would probably go back on the old gold basis to the predepression price level.

I realize the political difficulties of returning to the old gold basis, and I think they would be such that there would be a long, drawn-out fight, and it would involve a long period of uncertainty, with continual threats of a breakdown of the gold standard.

You realize that after the Civil War in 1865 it was expected to get back promptly to the gold basis, and it took 13 years of continual agitation to get back. England took 7 years to get back after the World War.

The opposition to deflation, or anything that looks like deflation, is tremendous. Anybody who advocates going back to the old basis is now looked upon as a Wall Street Shylock, and politically I recognize that the prospects of getting to the old gold party are very small.

So I would say that the wise policy to adopt would be to face that situation and stabilize promptly at a rate not less than 66½ cents. I think that rate would give us the 1926 price level in a very short period of years, and I would stabilize at once at that rate.

I would stabilize on a gold bullion standard, not on a gold coin standard. I would take all the profit that the Government will realize out of stabilization—I think it should all go to the Government—and I would pay it to the Federal Reserve banks in order to pay off the \$2,400,000,000 and odd of indebtedness of the United States Government to the Federal Reserve banks, represented in the form of the certificates of indebtedness and other Government debt held by the banks. That would make them free. I would not under any circumstances permit an inflation on the basis of that profit. I think if we use that \$2,000,000,000, or whatever it may be, as a basis of inflation, as a basis of currency and credit expansion, or as a

basis for making a market for Government bonds, we will smash any gold-standard valuation we attempt.

I do not believe in the commodity dollar as a practical arrangement, and I do not believe that we should try to stabilize between 50 cents and 60 cents, or within any similar range. I think we should stabilize promptly at a definite rate, and return to the gold standard, with international cooperation so far as possible, and with complete convertibility of our money into gold bars on demand.

That is, in a word, my general judgment.

The CHAIRMAN. Then you do not believe in the establishment of a stabilization fund?

Mr. KEMMERER. I think that any plan of stabilization would make stabilization operations desirable, but I would have those operations carried on by the Federal Reserve authorities, and I would have them get the best expert help they could get for a stabilization committee. I would operate through the Federal Reserve banks, just as England, as I understand, operates through the Bank of England. I would not make it a Government matter, but a Federal Reserve matter.

The CHAIRMAN. What is your view about the Government taking over possession and title of the gold?

Mr. KEMMERER. I think it would be very unwise. I can see nothing to be gained by taking over the gold and giving certificates that are not redeemable in gold; and I believe, as a matter of fact, that our whole gold certificate idea is a false one. It seems to me that we should not, under existing conditions, have gold coin in circulation, or gold certificates. I think the ideal arrangement would be to have only one kind of paper money in circulation in the United States, and that is Federal Reserve notes. To circulate gold coin directly, or circulate it by warehouse receipts in the form of certificates, I think is wasteful and undesirable.

Senator BULKLEY. Doctor, is there any currency in the world today that is redeemable without restriction in gold at a fixed ratio?

Mr. KEMMERER. Of course, in the last year or so there have been so many qualifications and hedgings, and so forth, that it is difficult to answer that. But so far as I know, you have a pretty close approximation to that in Holland, in Switzerland, in France, and in Belgium. I do not say they are absolutely free now.

Senator BULKLEY. In France it is redeemable only in gold bars, is it not?

Mr. KEMMERER. That is what I would advocate.

Senator BULKLEY. I am trying to find out whether there is any currency in the world that is redeemable in coin at a fixed ratio.

Mr. KEMMERER. I cannot speak as to the present situation in those smaller countries.

Senator BULKLEY. But, so far as you know, there is not any?

Mr. KEMMERER. I just have not any opinion to express on that.

When I speak of the gold bullion standard, I should make one qualification. I do not believe there is any scarcity of gold in the world. I think the present apparent scarcity is due to a world scramble for gold in a time of crisis and depression, when everybody is scared, and as soon as this scramble is over, as soon as we stop hoarding gold, as soon as the central banks stop hoarding gold, and as soon as the Governments stop hoarding gold, we will find that we have an ample supply of gold, and I believe that as soon as we work

out of this slough of despond—don't ask me when we are going to do it—we will go back to the predepression price level, and the tendency will be for prices to rise instead of fall. For that reason I should say that prospects are greater for a depreciation in the value of gold after we get out of this depression, than for appreciation.

If that should be realized—and everyone is desirous of stability in the value of gold and stability in the price level—then we might face the situation where prices would be moving upward, as they did practically the whole time from 1896 to 1929, except right after the war and a period of comparatively stable prices from 1921 to 1929. If you should have rising prices, it would be desirable to do something to increase the demand for gold, to stop those rising prices, because we want stability of prices, and one machinery for doing that might be to restore gold coin to circulation and thereby to increase the demand for gold, and help stabilize prices. So, my thought would be to go on the gold bullion standard now, and withdraw all gold coin and all gold certificates from circulation; but if in the future the gold standard price level started moving upward, it might be very desirable to restore gold coin to circulation in order to make a demand for gold. You would thereby throw one more force in the direction of stabilization.

The CHAIRMAN. Are there any further questions? If not we are very much obliged to you, Doctor.

Senator KEAN. I think the statement has been very clear.

Senator GLASS. Dr. Kemmerer, you say you have examined this bill casually. I invite your attention to section 10 of the bill, which some of us construe into a delegation of power to the Secretary of the Treasury to engage in the more important functions of the Federal Reserve banks. I would like to ask if you approve that?

Mr. KEMMERER. I think it would be very unwise for the Secretary of the Treasury to take over these important functions now exercised by the Federal Reserve banks. I believe that any stabilization efforts should be made through the agency of the Federal Reserve banks, because I am very fearful that if those operations are turned over to the Secretary of the Treasury, they will get into politics, and politics will get into them, and they will be utilized to a considerable extent for making a market for Government bonds rather than for stabilizing the currency.

I have recently been particularly interested in the studies I have been making in connection with the German experience, and it is a rather significant fact, I think, that shortly before Germany stabilized on the basis of 1 trillion paper marks to 1 gold mark, when she had 497 quintillion marks of paper notes in circulation, practically all those notes were secured, mark for mark, by the short-time certificates of indebtedness of the German Reich, and the gold reserve back of those notes was worth about eight times as much as the market value of all the notes in circulation at the current exchange rate on New York.

Senator WALCOTT. That is a good statement for the record.

Senator WAGNER. We are not going to that, are we?

Senator GLASS. It is my understanding, Doctor, that the Federal Reserve banks, especially the larger Federal Reserve banks, are operated by trained bankers, and have on their staffs—as in the case

of certain of the New York banks—what they call, at least, experts in foreign exchange matters. Is that not true?

Mr. KEMMERER. I believe so.

Senator GLASS. That being so, it might be reasonable to assume that they could more intelligently and effectively engage in these exchange operations than the Secretary of the Treasury, who may not be a banker.

Mr. KEMMERER. I agree with that, Senator. I think in an operation of this kind, which involves such large sums, and since we have not many experts in foreign exchange in this country—we have been a country whose business has been chiefly domestic rather than foreign—and since we come in competition with the most efficient foreign-exchange experts in the world, it is highly desirable that our Federal Reserve authorities should get the very best experts they can get to help in this work. I, for one, am not as much concerned over the danger of our being exploited by the stabilization funds in other countries, as some people are. I am inclined to think that a good share of the world wants to get stabilized, and I am inclined to think that if we went out for it, we could get cooperation with the other countries. I think that the danger of our being exploited in foreign trade, in the present conditions of nationalism, and the small amount of foreign trade, actual and prospective, is rather small. I think we are putting up a great bugaboo there that we are unduly scaring ourselves with.

The CHAIRMAN. What do the Federal Reserve banks do now towards stabilizing exchange of the dollar?

Mr. KEMMERER. The Federal Reserve banks have not operated very much, I understand, in the foreign field. I do not know that they do at all, but they do have their open-market operations, which they have carried on extensively.

Senator GLASS. They are not authorized by the law to do that.

Mr. KEMMERER. I think they should be.

Senator GLASS. And they have done that when they were not authorized by the law to do it.

The CHAIRMAN. I understand you are in favor of them doing it.

Mr. KEMMERER. I am, very emphatically.

The CHAIRMAN. What would be the difference between a valuation of 66%, and 60?

Mr. KEMMERER. In one of these memoranda which I wish to put in as part of my evidence, if I may, I have figured out just what the differences would be on certain assumptions. If you take 50, let us say, and take the price level in February of last year, shortly before we went off the gold standard, as 100. There has been no change worth mentioning in the value of gold since last February in the world markets, as measured by the purchasing power of gold in France, Belgium, Holland, and Switzerland. It has been practically stable.

Senator KEAN. In other words, Doctor, what you mean is this—

Senator GLASS. Let him finish.

Senator KEAN. You mean the prices of commodities as measured in gold have remained the same?

Mr. KEMMERER. That is the only way I know of measuring the value of gold, namely, by what it will buy.

There has been practically no change in the value of gold in the world's free markets, or relatively free markets, since last February.

If we now decide to call a 50-cent piece of February a dollar, and if there should be no change in the value of gold for some time to come, I should say ultimately—it will take time, months or perhaps years—ultimately our price level would be twice as high as it would have been if we had called 100 cents a dollar; and if my expectation is realized, that the 1926 price level would come back anyway, ultimately, as soon as we stop hoarding gold, then our price level would not only go up to 200 as compared with February, but it would go up a great deal further.

That would mean, then, that we would settle back on a price level at 200 to 300, as compared with February, a price level very much higher than 1926. I think the figures work out, on a 50-cent basis, to 111 percent higher, but I will have to check that.

If we devalued the dollar, and got a 50-cent gold dollar, and then we depreciated the value of gold decidedly, and that became a less valuable dollar than 50-cent gold is now, the serious thing to me is that we are going to cut down the value of the dollar probably by 50 or 60 percent—possibly more. That is assuming we make our stabilization effective, and our inflation does not run away. I think there is a good probability that it will run away with us, but if we make it effective, and it does not run away, it still would wipe out a very large percentage of the 100 billions of life insurance outstanding in the United States today; of the billions and billions of endowments of all our great universities and colleges, hospitals, and public welfare institutions; our pension funds; our savings-bank deposits; and of the investments of practically all the people who are creditors on long-time accounts. One of the most careful recent estimations fixes the total figure at 134 billion dollars.

Senator GORE. What figure? I did not understand.

Senator WALCOTT. The destruction of values.

Mr. KEMMERER. I do not say the destruction will be 134 billions. I say the amount of long-time debt outstanding is 134 billions. It would not be destruction of values. It would be a transfer of values, a transfer from the creditor to the debtor. The greatest creditor in America, gentlemen, is not the private bondholder, is not the rich man. The greatest creditor in America is represented by our great public-welfare institutions, the hospitals, the universities, our insurance companies, the great cancer institutes, and scientific institutions. Those are our great creditors. The greatest debtors in America today—if you were to group the various debtors together, you would find the greatest single class of debtors today are the stockholders of our corporations.

Senator BARKLEY. According to your theory, then, we never could change the gold content of the dollar, because there will never be a time when it will not affect somebody who is a creditor.

Mr. KEMMERER. It is a question of degree, Senator. There is nothing you can do with the dollar that is not going to hurt some people and help some.

Senator BARKLEY. It is not your theory that when the Constitution conferred upon Congress the power to coin money and regulate the value thereof, it meant it had to do it at once after the Government started, and could never change it again?

Mr. KEMMERER. Not at all.

Senator GLASS. Do you think that it was in the minds of the framers of the Constitution that it could be done very frequently from time to time?

Mr. KEMMERER. I do not. Of course, we have changed the gold value of the dollar deliberately twice in our history, and in neither case did it amount to anything so far as its bearing on debts was concerned. Once was in 1834, when we reduced it about 6 percent, and there was no gold in circulation to speak of anyway. Our coins were practically all silver, as we were on bimetallic basis, and it was an effort to bring gold back.

The next time was in 1837, when we changed it a small fraction in order to get an easy ratio to work with, and this change did not amount to anything. We have never changed the gold content of the dollar in such a way as to affect debts.

Senator GLASS. Doctor, before I leave—because I have got to leave soon—

Senator GOLDSBOROUGH (interposing). May I make a motion before that?

Senator GLASS. Just one moment. Let me ask you: What has been your experience, your connection with monetary values, in order that the record may show that you know what you are talking about, because you simply gave your name? The fact is I recall very distinctly that your were in intimate contact with those of us who were framing the Federal Reserve Act in 1913. Isn't it a fact that you have been called on to set up banking systems in the various countries?

Mr. KEMMERER. Yes, Senator. I have served in one form or another as currency and banking expert, or am serving now, for 13 different countries, and in a good many of them we have reestablished, or established anew, the gold standard, after a long paper-money experience, and in nine of them we have established or completely reorganized central banks and reorganized the general banking system.

The countries in their order, if I may just go over them hurriedly, are: the Philippine Islands, Mexico, Guatemala, Colombia, Germany with the Dawes Commission, Union of South Africa, Chile, Poland, Ecuador, Bolivia, Colombia second time, China, Peru, and I am now serving for another country but it has not been made public yet.

Senator GLASS. You are also Professor of Political Economy at Princeton?

Mr. KEMMERER. I am Professor of International Finance.

Senator GLASS. I just wanted the record to show that so that we might know who was talking to us.

Senator GORE. Now, Doctor, if we devalue the gold dollar down to 50 cents and that should realize a theory of doubling prices, that would have the effect of cutting half in two all the wages, would it not?

Mr. KEMMERER. I do not think that would, Senator. I think what would happen would be that prices would move up slowly and irregularly and wages would lag behind. There would never be an exact cutting in half, but there would be a long time before the slacks were taken up.

Senator GORE. But I was assuming that these effects would come at once. You would devalue down to 50 cents—because I want to get this picture in the record?

Mr. KEMMERER. Yes, sir.

Senator GORE. Prices double, and if they double then wages would be cut half in two, real wages. Of course, I understand they would lag and would advance, adjusting themselves sooner or later, but for the time being it would cut them in two, would it not, practically?

Mr. KEMMERER. Well, of course, the gold value of the dollar is already down to about 60 cents.

Senator GORE. Yes.

Mr. KEMMERER. A good deal of that has already been done.

Senator GORE. Yes. Now then, wouldn't it cut savings accounts half in two also, or practically so?

Mr. KEMMERER. What happens in those cases, as I interpret it, Senator, is that savings accounts and life insurance and bonds do not go down, but they stay where they are and everything else goes up.

Senator GORE. That is the point. They are not elastic. The nominal amount is fixed.

Mr. KEMMERER. Exactly. For example, I spoke of the German situation. When Germany stabilized at a trillion to one wages had gone up by the hundreds of billions.

Senator GORE. Yes.

Mr. KEMMERER. And common stocks had gone up by hundreds of billions, but the Government debt, the Government bonds of Germany, had not gone down at all; they stayed right there—they stayed put.

Senator GORE. I was coming to that in a moment. This would also have the effect of cutting down life insurance policies or their value?

Mr. KEMMERER. Yes, sir.

Senator GORE. You stated a moment ago that the largest group of debtors in the United States was the stockholders in the corporations of the country.

Mr. KEMMERER. Yes.

Senator GORE. Then the largest class of beneficiaries of this plan, if it realized the theory, would be the stockholders in the corporations?

Mr. KEMMERER. Yes, sir.

Senator GORE. And the stockholders it would benefit most would be those in the corporations that had the largest bonded indebtedness, would they not?

Mr. KEMMERER. Yes, sir.

Senator GORE. And particularly corporations that produce things to sell instead of rendering services?

Mr. KEMMERER. Particularly industrials as against public utilities, for public utilities could not raise their rates proportionately.

Senator GORE. No. They are petrified.

Mr. KEMMERER. Yes.

Senator GORE. So that this would enhance the equities of the stockholders in the corporations of the country?

Mr. KEMMERER. Yes; that is the universal experience.

Senator GORE. Yes; at the expense of the bondholders.

Mr. KEMMERER. Yes. That is, the speculative class would be benefited at the expense of the most conservative creditor classes.

Senator GORE. The investing class.

Mr. KEMMERER. The investing class, whom we try to protect by trustee laws and governmental regulations and all sorts of things. We are taking the money from those classes, whose investments we

have restricted, and put it in the hands of the speculative class, to a great extent. Of course, there are lots of exceptions.

Senator GORE. At the expense of the investing class?

Mr. KEMMERER. Yes. We are playing havoc with our great universities and private endowments, and when their endowments are gone, if they are gone, if they are paid off in a cheap dollar and those endowments are reduced, it is a very serious question as to who is going to reendow them. The prospects are pretty bad. I think you will all agree that we are not going to permit rich men to make the money in the future and to accumulate it, as we have in the past, and those great privately endowed public welfare institutions are in danger of passing over to the State or passing out of existence.

Senator GORE. If prices double, as we assume, or advance as we assume, wouldn't that necessarily result in substantial increase in taxation?

Mr. KEMMERER. Yes; of course. As prices go up the Government's expenses go up, as they have done in every case, and you have either to increase the taxes or float more and more money, and as you do that you wipe out your indebtedness, but you cannot finance the Government permanently just by floating credits or paper money into circulation. Sooner or later you have got to tax.

The CHAIRMAN. What are you going to do with this situation, Doctor: Statistics show, I think, that public and private debts have increased from a thousand to two thousand percent since 1922?

Mr. KEMMERER. I do not know about those figures. But I do know that the present high value of gold and the present low price level has put a burden on many debtors, and I think it is a serious thing.

But I would call your attention to two or three facts in that connection. One is that we have had only 5 years, and that is enough—from 1896 to 1933 we had almost continually rising prices, except for the slump in 1920 and 1921, or stable or prices. In two thirds of the years from 1896 to 1933 prices were rising and the debtor was gaining during all that time at the expense of the creditor, unlike the period before. Before 1896 he was losing for about 23 years.

So that a very large part of the debts, long-time debts now outstanding, have been in process of having their interest and principal paid over years and years in a less valuable dollar than the dollar that was borrowed.

And the second point that I would make is this: I believe that the evidence is very strong that this present low price level, even if we should not devalue the monetary unit, would be but temporary, and so those hardships would be merely temporary hardships, that would be wiped out if we moved back by natural courses to the 1926 level. Now, that is debatable, and I appreciate that.

Senator BULKLEY. Is it a fact that all of these endowments that you have been speaking about are invested in bonds and other fixed obligations and not at all in real estate or corporate stock?

Mr. KEMMERER. I would not say all, Senator, but I find that the figures show that an enormous portion of them are in bonds and mortgages, certainly three fourths or more: There are a few institutions that have some corporate stocks, and all have some real estate. For example, at Princeton University we have some of our endowment

invested in our dormitories, but the great bulk of the endowment in all those institutions is in bonds and mortgages.

Senator GORE. One more question and I will be through.

Mr. KEMMERER. Yes, Senator.

Senator GORE. Don't you figure that the crash of 1929 was due more to the excessive use and abuse of credit than to any deficiency in the world monetary stock of gold?

Mr. KEMMERER. I do not think there is any evidence at all of a deficiency in the world output of gold.

If I may just make a statement—I have it right here, I think. I have been working in that field a little, and I believe I can give you a statement I would like to put in the record on that.

The Federal Reserve Board estimates the world stock of monetary gold in the hands of central banks and governments at the end of 1921—this is round numbers—at 8 billion 23 million; at the end of 1929 at 10 billion 297 million.

This represents an average annual increase (geometric) of about 3.2 percent. For the 19 years 1913 to 1932, covering this whole period, this world stock of monetary gold increased 144 percent, representing an average annual increase (geometric) of 4.8 percent. The studies of Dr. Carl Snyder of the New York Federal Reserve Bank covering the principal commercial countries of the world for the period 1865 to 1914 show a rate of increase in the physical volume of production of the basic commodities, tons, bushels, yards, and so forth, of approximately 3.15 percent a year. That is where your monetary gold increased at an annual rate of 4.8 percent. The annual rate of increase was only 1.86 for basic commodities.

That is, the world stock of monetary gold since 1913 had increased much more rapidly than the world production of basic commodities, and meanwhile there have been enormous economies in the use of gold. For example, if you say that a dollar of gold in actual hand-to-hand circulation does one unit of money work in a year, that same dollar of gold used as a reserve in our Federal Reserve banks, with the credit structure that is built upon it, and the velocities at which our deposits circulate as compared with money, would have its efficiency increased about fortyfold.

The world is economizing in the use of gold through developing central banks and through increasing use of checks and through the various devices that we have for economizing gold—when we do that, as we have been doing it, on a large scale, in recent years, we have tremendous possibilities for increasing the monetary efficiency of gold.

The great trouble now is that the world, instead of using its gold, is hoarding it, and there is a world scramble for gold in the midst of this depression. Everybody is scared, and even the countries that are off the gold standard are piling up gold in their central banks and not using it. Things are not moving. Bank deposits are not moving. Money is not moving. It is hoarded, or relatively hoarded.

And if we once get confidence restored in our currency and in our business, and things begin to move again, why, we will find we have gold and gold in abundance.

Senator GORE. What is your definition of "inflation", Doctor?

Mr. KEMMERER. The word "inflation" is a word that is used in a variety of meanings, and one cannot say that one is correct and another is false. But I have found the most workable definition of "inflation"

to be that inflation exists in any country whenever the supply of money and of deposit currency circulating through checks increases relatively to the demand for circulating media as represented by the physical volume of business to be done, in such a way as to bring about a rise in the general price level.

Now, in interpreting "supply of money" and "supply of deposit currency" you must always interpret them in terms of the velocities at which they circulate. Just as the supply of freight cars on a railroad depends not only upon the number of cars but the speed at which the freight cars can and do move, so the supply of money and deposit currency depends upon the number of units you have and the velocities at which they move.

As a matter of fact, we have about 18 percent more money in circulation today than we had in the boom times of 1926. We have from two thirds to three fourths as many bank deposits subject to check. We are doing probably only about 60 to 65 percent the physical volume of business. We are doing it at a price level only 75 percent as high as it was in 1926, which means we have enough money and bank deposits subject to check to give us a price level now much higher than the price level of 1926. But the trouble is it is not moving. Our bank deposits subject to check are moving at less than half the rate they were moving in 1926 and 1929.

We have the money, we have the bank deposits, but they are not moving because everybody is scared. And as long as the public is scared, afraid to make their investments, afraid to go ahead, as long as the people upon whose initiative we depend for recovery are afraid, things are not going to move—unless they become afraid of the dollar; and, if they once become afraid of the dollar, if you once have a real flight from the dollar, the velocities, instead of moving at this rate, will move the way they did in Germany and France and Austria and a good many other countries during their post-war inflation.

They will simply go off the map. They go from perhaps 20 or 30 times a year up to thousands of times a year. And nothing can stop them. That is mass psychology.

Too much of the interpretation of this money question has been mechanical. By increasing the amount of money and increasing bank deposits, it is said you are going to raise prices. But we have found from the experience of the last year, that to increase the volume of money by artificial means breaks confidence, and the more you pump into circulation if people are afraid of the business situation, the lower the velocities, and the decline in velocity more than compensates for the increase in volume, and you have actually falling prices.

But that only lasts so long as the people have confidence in the money. If they once lose confidence in the dollar and they think it is going down and they begin to unload it, then you have the flight from the dollar, and people draw their money out of the banks. They want to get it in goods, and they want to get it in real estate. They want to get it out of the country, in anything, because its value is going down; everything else is going up. So you have bonds dumped, and you have bank accounts dumped, and the man spends his money as rapidly as he can to get rid of it before its value goes down. Your velocities go up many-fold. If your velocities go up fivefold it is just equivalent to multiplying your circulating media

fivefold, and in Germany the velocities went up from perhaps 30 or 40 times a year to many hundreds of times a year. Money circulated several times a day. People rushed to buy anything.

Senator TOWNSEND. Are you familiar with whether or not we have had a flight of capital from this country already?

Mr. KEMMERER. I know we have had a flight of capital, and I suppose it runs up to pretty substantial figures, but I don't know how much it is. Of course, we have adopted various means to keep it from going out. We have been more or less successful, perhaps less rather than more.

The CHAIRMAN. Do I gather, Doctor, that you favor stabilizing the price level rather than stabilizing the dollar?

Mr. KEMMERER. I believe that a stabilized price level is highly desirable, but I believe that the best method, taking human nature as it is and politics as it is, the most promising method of stabilizing the price level that we could have would be a return to the gold standard on the gold bullion basis, the strengthening of the Federal Reserve banks, cooperation of our own Federal Reserve banks with the banks of other countries in the direction of stabilization, and moving forward from the historic gold standard by improvement in international cooperation, rather than by trying to throw overboard the historic gold standard. I think the historic gold standard is defective, it is far from perfect, but I think it is the best we have had, and the best hope for the future is not to throw it overboard but to go back to it in an improved form, and then by international cooperation, through central banks and every way possible, try to make that standard a better standard.

The CHAIRMAN. Let me call your attention to this situation: We were on the gold standard. We had a Federal Reserve System that we thought was ideal and would protect the country against any collapse. In October 1929 there was a depreciation in the value of securities on the New York Stock Exchange of 29 billion dollars. There was depreciation in October 1930 of the value of securities on the New York Stock Exchange of 20 billion dollars. That meant a depreciation of 49 billion dollars, and there are only about 50 billion dollars of real money in all the world.

Now, then, that came under those circumstances. How can you account for that, if that Federal Reserve System is so sound and the gold basis is so sound?

Mr. KEMMERER. I do not think that stock market collapse was a monetary collapse at all. I do not think it was due to the breakdown of the gold standard. I might equally say that from 1921 to 1929 we had in this country the most stable price level probably this country ever had. The wholesale prices, the general price level, the cost of living, were very stable. We did have a wild speculative security market in the latter part of the time, but the strange thing about it was that that was more or less pocketed. The commodity price level and the wage level moved along pretty evenly, but funds were drafted off and we permitted a runaway stock market.

Now, the trouble was not with the currency. In fact, part of that speculative fever was due to an attempt to expand the currency and failure to recognize the fundamental economic forces that were at work, and unwillingness to recognize that there was a danger of inflation that we ought to have seen. We probably should have put

up our discount rate faster. We probably should not have gone as far as we did in open market purchases in order to maintain that market.

But I do not think that our trouble was or is primarily monetary.

Senator KEAN. Do you think at that time if the Federal Reserve bank had really gone ahead and put up the prices for money they would have stopped that speculation?

Mr. KEMMERER. I would not go so far as to say it could have stopped the speculation. I think the Federal Reserve authority, if they had had the ability—and I do not know to what extent they were influenced from Washington; I have heard various reports, I do not know—but if they had been free and had been courageous I think they could have done a good deal to have checked the speculation. Whether they could have done enough or not, that is another question. I do not know.

The CHAIRMAN. I think now we better take a recess until half past 2, and resume the hearings at that time.

(Accordingly, at 1:45 p.m., the committee took a recess until 2:30 p.m. of the same day.)

(The additional matter submitted by Mr. Kemmerer is here printed in full, as follows:)

[New York Times, Jan. 16]

While, in a time like this, when healthy economic recovery is being retarded by monetary instability and uncertainty as to the future value of the dollar, any step in the direction of stabilization is to be welcomed, and while all the profits realized from any devaluation plan that may be adopted should clearly go to the whole Nation as represented by the National Government and should be used exclusively by the Government for making the stabilization plan effective and for paying off the national debt, there are a number of features in the administration's stabilization plan that are open to criticism.

These features include its theory that the country's gold reserves should all belong to the Government, instead of the Federal Reserve banks; its theory of the relationship of silver to stabilization; the implied commodity dollar feature of the plan, and the very low range of rates between which the administration proposes to stabilize.

It is this last feature of the plan, providing for stabilization between 50 and 60 cents gold, upon which public attention should now be concentrated, and it is to this feature of the plan that this article is devoted.

In my judgment, the proposed range of possible stabilization rates is too low and, if adopted, would cause great permanent injustice to the Nation's present creditor classes, who constitute many of the most worthy people and institutions in our country. It would also impose heavy temporary losses on practically all classes of labor.

VALUE OF GOLD ITSELF UNCHANGED

The gold standard in the United States was actually discontinued early last March, although it was not legally given up until April. February 1933 was accordingly the last month during which we had a *simon pure* gold standard in the United States: namely, a standard under which all of our different kinds of money were maintained equal in value, dollar for dollar, with the value of a fixed quantity of gold in a free gold market.

From February 1933 to the present time, the value of gold itself, as measured by its purchasing power over goods in gold-standard countries like France, Holland, Belgium, and Switzerland, has remained practically unchanged.

Such changes as we have had, therefore, since February, in the value of our American paper dollar, are not due to changes in the value of gold itself, but to changes in the value of our paper money.

Assuming for the moment, for the sake of the argument, that the present high value of gold in the world's markets will be continued indefinitely, or, in other words, that the present low commodity price level in gold-standard countries has come to stay, except to the extent that there are debasements of gold money—

tary units, a 60-cent American gold dollar should give us ultimately a general price level 66½ percent higher than that of last February, and a 50-cent gold dollar should give us ultimately a price level twice as high as that of last February.

PRICE RISE OF 84 PERCENT POSSIBLE

Obviously, if we decide to call a 50-cent piece a dollar, sooner or later prices will be twice as high as they would be if we were to call 100 cents a dollar, provided there were no change in the value of the gold itself which these 50 cents or these 100 cents represented.

On the basis of a 60-cent gold dollar the general price level would ultimately be 56 percent higher than it is now and 21 percent higher than it was for the so-called "normal" year 1926.

Taking the lowest stabilization rate suggested by the President, namely, a 50-cent gold dollar, the general price level would ultimately be about 86 percent higher than it is now, and about 45 percent higher than it was in 1926.

In arriving at these conclusions, we have assumed that the value of gold itself would continue at the very high level now prevailing. This is very improbable. The present abnormally high value of gold is largely the result of a world-wide clamor for the yellow metal for purposes that amount to practical hoarding throughout the world in a time of universal economic depression.

Gold was comparatively stable in value during the 8½ years ending with the crisis of 1929 and, except for the latter half of the year 1920 and the forepart of 1921, the value of gold throughout the world was depreciating most of the time from 1896 up to 1921.

NO SIGN OF ENDURING SCARCITY

The world is producing more gold now than ever before in its history. For over a generation its stock of monetary gold has been increasing at a much more rapid rate on the average than its production of basic commodities. It has, however, in recent years been realizing enormous economies in the use of monetary gold and is in position now to use its monetary gold much more efficiently than it ever did before.

There is no evidence of an enduring scarcity of gold and, when we once work our way out of the present depression and begin to use in a normal way the gold we actually have, instead of hoarding it, we will find that there is an abundant supply and that, even without any devaluation of gold monetary units at all, the commodity price level in gold-standard countries would have returned to what it was during the 8½ years of comparative stability ending with the crisis of 1929.

A return of gold to its 1926 purchasing power value would mean a decline in the present value of gold by about 22 percent, or a further rise in our general price level of about 29 percent. On this assumption, if we should adopt a 60-cent dollar, the general price level after the stabilization plan became finally effective and the world finally worked its way out of the depression would be approximately 72 percent higher than it is now, and 27 percent higher than it was in 1926.

WARNS DROP MAY GO TOO FAR

On the same assumption, with a 50-cent rate of stabilization, the general price level would be approximately 111 percent higher than it is now and 58 percent higher than it was in 1926.

A price level twice as high as at present would mean a dollar only half as valuable as now, and a price level 111 percent higher than the present one would mean a 47-cent dollar, as compared with our present one; while a price level 58 percent higher than that of 1926 would give us a 63-cent dollar, as compared with the dollar of 1926.

On any one of the above assumptions there would be an enormous depreciation in the value of our dollar. This depreciation would go altogether too far in reducing the burden on the debtor classes (which are admittedly now unduly heavy), at the expense of the creditor classes.

People want money only to buy things with and, if the purchasing power of the dollar is greatly reduced, or, in other words, if the prices of the things people buy are greatly increased, the public suffers proportionately, unless and until their accumulated savings and their incomes rise sufficiently to compensate for the rise in prices.

There are, however, some very important kinds of savings and of income that do not rise at all—or at least to any considerable extent—as the value of the

dollar declines, or, in other words, as prices and the cost of living rise. And there are other kinds of income that increase, when prices and the cost of living increase, but much more slowly. These incomes are laggards, and it takes them a long time to catch up with a rapidly rising cost of living.

INFLATION IMPOSES PERMANENT LOSS

In the first class, namely, the class representing savings and incomes that do not rise appreciably as the dollar depreciates, inflation imposes a permanent loss on creditors. In this class are such credits as life-insurance policies, of which the amount outstanding in the United States today is over \$100,000,000,000; bonds and mortgages, namely, the forms of securities in which are invested much of the endowments of our colleges, hospitals, public libraries, research laboratories, and other public-welfare institutions, and of our savings banks; also practically all pensions and annuities.

The owners, or the beneficiaries, of such credits are the creditors whose capital and income would be permanently reduced by a reduction in the value of the dollar, for these obligations are payable, principal and interest, in a fixed number of dollars, regardless of the value of the dollar. They do not rise like the price of commodities, of real estate, and of common stocks as the dollar depreciates.

If the proposed plan is carried through, these people and institutions will suffer permanent losses that will amount to tens of billions of dollars. It is a significant fact that the face value of the life insurance outstanding in the United States alone is approximately 12 times as great as that of all of the farm mortgages in the country.

HOLDS WAGE EARNERS WOULD SUFFER

The second class that would suffer heavily from such a great reduction in the value of the dollar is our great laboring class, including both skilled and unskilled labor, and our so-called "white collar" working class.

Both economic theory and numerous experiences with monetary depreciation in this country and abroad show and show emphatically that, when the currency depreciates, wages lag behind prices and the cost of living on the rise, and, until the price adjustments to the new and depreciated monetary unit have been completed and the laggardly wages have finally caught up to prices, which usually takes several years of time, the laboring classes suffer.

Their costs of living rise faster than their incomes, while the value of their savings and of their life insurance declines, so that increasing demands are made upon them to make provisions for the inevitable "rainy day."

Even when these people have mortgage debts which they can pay off in a less valuable dollar they frequently find that after they have met the increased current expenses due to the depreciation of the dollar they have even fewer dollars than before for making payments on their mortgages.

In view of these facts, the public, in my judgment, should oppose, and oppose vigorously, such a drastic reduction in the gold content of the dollar as the one which the administration is now proposing. Some reduction is probably a political necessity, but a reduction so great as 50 percent, or even 40 percent, is altogether too large.

A reduction of one third would be the maximum that should be considered at all, and the reduction should be substantially smaller than this if politically possible.

The subject is one of momentous importance, involving the welfare of the entire American people for generations to come, and the public should speak out vigorously its judgment in the matter before it is too late.

THE WAY BACK TO GOLD

Monetary instability is blocking prosperity—deflation to old gold parity of 100 cents is politically impossible—prompt stabilization at 66⅔ cents would be a strong impetus to enduring recovery.

MONETARY INSTABILITY AN OBSTACLE TO ECONOMIC PROSPERITY

Numerous experiences in this country and abroad have shown that monetary instability, accompanied by widespread fear as to the future value of the monetary unit, is a serious obstacle to economic prosperity. Take, for example, 2 com-

paratively recent periods of monetary instability in the United States, the 1 covering the 13 years of our depreciated and fluctuating greenback standard immediately following the Civil War, from 1866 to 1878, inclusive, and the other covering the 7 years from 1890 to 1896, when the Bryan agitation for free silver was active.

According to Thorp and Mitchell's *Business Annals*, for the first period of 13 years, 4 years were prosperous, 2 were prosperous part of the time and depressed part of the time, and 7 were years of depression. For the second period of 7 years, 1 year was prosperous, 2 were partly prosperous and partly depressed, while 4 were years of depression. Nearly every country in the world experienced an extensive inflation and great monetary uncertainty during the World War and for a few years immediately after. The world-wide business collapse of late 1920 and early 1921 was one of the prices paid for this inflation. After these experiences the practically universal demand for a speedy return to the gold standard throughout the world and the actual return of most of the leading countries to that standard during the succeeding 8 years are evidence of widespread dissatisfaction with managed paper money currencies.

The reason why monetary uncertainty is an obstacle to business prosperity is simple. All business looks toward the future. Most business is done on credit and a large proportion of it on long-time credit. Practically all business contracts are in terms of money, and when the currency is being inflated (or deflated), the prices of the various elements that enter into any business, such as the prices of raw materials of different kinds, the prices of machinery and of building materials, the wages of labor, and taxes respond very unevenly and with widely different degrees of lag to the inflation or deflation process. The extent of these responses, moreover, and the time they take place cannot be predicted with even a moderate degree of certainty. Under conditions of inflation, few responsible business men want to make positive commitments for the future, and few people with money are willing to lend it on long-time account through the purchase of bonds or otherwise, so long as there is uncertainty as to the value of the dollar in which these debts will be paid in the distant future.

At times when the prospects of inflation are strong, as they were in the United States in the late spring and summer of 1933, there may be a feverish business activity in certain lines due to the anticipation and discounting of rising prices, but such "prosperity" is not enduring, as we have recently learned to our sorrow. Not until we can establish firmly a monetary standard in which the people upon whose initiative we must depend for economic recovery have strong confidence, can we expect an enduring and orderly prosperity. Putting this idea bluntly, it may be said, the sooner we return to the gold standard the better.

ANY STABILIZATION PLAN SHOULD INSPIRE STRONG PUBLIC CONFIDENCE

Any stabilization plan to be successful must inspire strong public confidence. There should be no qualifications, no "ifs" or "ands" about it. It should be definite, positive, and permanent. If the Government can stabilize *de facto*, it can even more easily stabilize *de jure*, because the public will not have full confidence in any stabilization plan if it sees that the Government itself is wavering and is not willing to take the responsibility of committing itself positively and permanently to carrying the plan through.

THE WAY TO STABILIZE IS TO STABILIZE

The frequently heard talk about waiting until a currency reaches "its natural level" before stabilization is a fallacy. It has been my privilege to assist 11 different countries in stabilizing their currencies on a gold basis, and in every one of them there was talk of a "natural level," but no one has ever shown, so far as I am aware, just what the natural level of prices is under a depreciated paper money standard or how it is to be determined. In the days of our depreciated greenback standard, when there was much discussion of the time for resuming gold payments, there arose a popular slogan, for which Salmon P. Chase was apparently responsible, that "the way to resume is to resume." A slogan which might well be adopted today is: "The way to stabilize is to stabilize."

ARGUMENTS OF THOSE WHO FAVOR A DEFLATION BACK TO THE OLD GOLD DOLLAR

There are today a number of economists and men of prominence in the financial world—men whose judgment on currency matters is worthy of great respect—who believe that the wise policy to follow is to reflate our currency back to the old

gold dollar. This is the policy we followed with the greenbacks after our Civil War and which Great Britain followed, mistakenly, according to the judgment of most of her leading economists, with the pound sterling after the World War. In our case we required 13 years to accomplish it, and in Great Britain's case it took 7 years. In both cases the process was a very painful one.

The moral argument in favor of a return to the old gold parity is particularly strong. Nearly all of the long-time debts now outstanding in the United States were incurred when the currency was on the gold standard, and in making these debt contracts both debtor and creditor contemplated payment in terms of our historic gold dollar. To avoid any possibility of doubt on this question, however, it was specifically provided in most bonds and mortgages that payment should be made in gold coin of the United States of the standard of weight and fineness existing at the time the contract was made.

Shortly after the Civil War (1868) the Supreme Court, in the case of *Bronson v. Rodes*, had declared that such contracts were valid and were legally enforceable. During the latter years of the depreciated greenback standard and during the period of our silver controversy ending with the defeat of Mr. Bryan in 1896, there was much uncertainty as to the future value of our dollar and, therefore, during these periods bonds containing the gold clause could be sold to the public on terms that were much more favorable to the debtor than bonds without this clause.

Our National Government, as well as our States and municipalities, gradually adopted the policy of including this gold clause in the loan contract when selling their bonds to the public, and they, like the railroads, industrial corporations, and private debtors, profited by the incorporation of this clause. For the Government later deliberately to give up the gold standard and then, after a period of depreciated paper money, to stabilize the dollar at a greatly reduced gold value, and thereafter to pay its own outstanding bonds and to authorize other debtors to pay their bonds and mortgages, which contain this gold clause, at parity in the new and depreciated dollar, it is argued, would be a positive breach of faith. The fact that the gold dollar was unstable in value was known when the debts were contracted and, as regards that instability, the parties to the contract presumably took their chances.

Inasmuch as it is unthinkable that the public should pay their debts in gold of the old standard of weight and fineness at a time when all their incomes are in the form of a greatly depreciated paper dollar, the only solution of this moral problem, according to some economists, is to restore the dollar to its previous gold value.

In addition to this moral argument, there are two economic arguments that support this conclusion. The first one may be stated very briefly.

DEVALUATION A DANGEROUS PRECEDENT

How about the security of loan contracts in the future after a precedent has once been established of deliberately reducing the value of the unit in which debts are payable and of nullifying by governmental action specific agreements that were made with the sole object of avoiding losses to the creditor that might otherwise arise from a depreciation in the gold value of the dollar? If such devaluation is effected once, it may be effected again and then again, and each time with less resistance. The precedent would obviously be a dangerous one and as a result of it, the country's credit operations, through which it carries on most of its business, would be rendered more difficult and, to the debtor, more expensive, for a long time to come.

PRESENT HIGH VALUE OF GOLD MAY BE ONLY TEMPORARY

The second economic argument in support of the policy is the fact previously mentioned that the present low price level in terms of gold, or, in other words, the present high value of the gold dollar is probably but temporary and is due to a world scramble for gold for virtual hoarding in a period of world crisis and depression. In this connection, it is a significant fact that, had there been no war and had wholesale commodity prices in the United States risen on an average 2.4 percent a year progressively from 1913 to 1929, which is the percentage rate of annual rise from 1896 to 1913, we would have had approximately the same average price level from 1921 to 1929 that we actually did have.

The great fundamental forces which determine the long swings in the world price level have probably not been greatly changed during recent years. The world's population and the distribution of this population are practically unchanged. Human tastes, human wants, and human capacity to labor are

essentially what they were 5 years ago. The world's great scientific and mechanical accomplishments are still with us and its inventive genius is unimpaired. There is no reason to believe that the world's annual rate of increase in the production of basic commodities, a rate of about 3 percent a year which Carl Snyder finds has persisted for two generations, has suddenly been changed permanently. Gold production has increased substantially since 1921, and since 1913 the world's supply of monetary gold has increased much faster than the world's production of basic commodities; while the efficiency of gold as the basis of our credit structure is being increased continually through improvements in our currency and banking machinery. If, since our 8½ years of comparative stability in commodity prices ending in 1929, nothing has happened to change fundamentally and permanently the world's supply of gold and circulating credit, and if, likewise, nothing has happened to change fundamentally and permanently the world's production of basic commodities and its system of fabrication and marketing, it would seem probable that a commodity price level something like that preceding the crisis would return when we once drag ourselves out of this slough of despond.

The facts just mentioned with reference to the trend of commodity prices since 1896 and to the sudden departure from this trend that took place at the time of the World War and again at the time of the present crisis are shown on the following chart.

(Illustration not printed at this time.)

DOLLAR DEPRECIATION GREATER IN TERMS OF GOLD THAN IN TERMS OF COMMODITIES

Although the gold value of our paper dollar depreciated about 36 percent from the time we gave up the gold standard to November 1933, which is equivalent to saying that from the standpoint of the value of gold in gold standard countries we were calling 64 cents gold a dollar in November 1933, and although this depreciation should have given us in time a price level approximately 56 percent higher than we had in February 1933, our prices in general up to November 1933 had advanced only a minor portion of this percentage (as shown on the chart, p. —). From this it is argued that the depreciation of the dollar up to November 1933 had been largely in terms of gold and had been due chiefly to the flight of American capital abroad. On that assumption, it is said that a decision to return promptly to the old gold standard would cause this capital to return to the United States in large volume, and that this return in itself would go a long way toward restoring the gold exchange value of the dollar to the old gold parity.

DEFLATION TO OLD GOLD PARITY POLITICALLY IMPOSSIBLE

These arguments for returning to the old gold parity have great weight. None the less, I believe it would be unwise to try to return to the old gold parity at the present time, and my reasons for this opinion are chiefly political rather than economic. The opposition to such a policy of deflation would be so strong throughout the country that any attempt to carry it through would delay an effective return to the gold standard for many years, and during this delay our present depression would continue to drag on.

The sentiment in the country, both in Congress and out, in favor of inflation is, unfortunately, strong. The agitation we have been having over the country for a long time in favor of cheap money to lighten the debt burdens of farmers and others has been dangerously effective. People who advocate a reflation of the currency back to the old gold parity are today looked upon by a large percentage of our population as Wall Street Shylocks demanding their "pound of flesh", and even the Wall Street saints are today not in particularly good repute in many parts of the country. To safeguard the country against the serious danger now confronting it of a runaway inflation, it is important that the forces of sound money rally on a plan of stabilization that can be made effective quickly. Those who insist uncompromisingly upon returning to the old gold parity at a critical time like the present are bucking their heads against a stone wall, heads that could be used in a much more effective way in the fight for sound money.

The political doctors in Washington have for some time been drugging our economic organism with the habit-forming drug, inflation, and are continuing to do so. The patient has resisted and up to the present time the drug has been only mildly effective; but the patient's system is full of it and it cannot be pumped out. Slowly the public is losing confidence in our currency, as shown by the

flight of capital from the country, the rise in the prices of common stocks, the slackening demand for high-grade bonds, and the recent instability in our markets. The giving up of the gold standard in the spring of 1933 was unnecessary and was a great mistake, but Humpty Dumpty has fallen off the wall and it would be an exceedingly difficult and long-drawn-out task to put him together again.

We are today confronted with the serious danger of a further flight from the dollar, which might end in a run-away inflation. The only certain way to avoid such a run-away inflation and to assure an early return to the gold standard is to stabilize promptly. A rate of about 66½ cents, which is not far from the present gold value of our paper dollar and which represents about the same proportion of gold parity as that maintained by the paper pound in England since September 1932 would probably be the best one under the circumstances. In fact, it is very doubtful if a higher rate would now be politically possible.

The value of gold as measured by its purchasing power in gold-standard countries has not appreciably changed since we gave up the gold standard. The 50 percent rise in commodity prices over the level of February 1933 which the 66½-cent rate might reasonably be expected ultimately to bring about would give us a wholesale price level 10 percent lower than that of 1926, a general price level 9 percent higher, and a cost of living 4 percent higher. It would give us, moreover, a wholesale price level about 26 percent higher than that of November 1933, a general price level 40 percent higher, and a cost of living 36 percent higher. This rate in due time would, therefore, probably result in an advance of prices sufficient to give the debtor classes the relief which the administration has been advocating. Personally, I believe that within a few years the advances in prices would actually be much further than these figures would suggest, because, for reasons discussed elsewhere, I expect to see gold itself depreciate at least to its 1926 value before 1940. In that case our price level would be more than twice as high as it was early in 1933.

Inasmuch as commodity prices will nearly always lag well behind the price of gold on the rise when the paper dollar is depreciating, if the inflation process should be continued until commodity prices themselves reached the 1926 level, and stabilization should be effected at the gold value of the paper dollar prevailing when that commodity price level was reached, the final commodity price level would probably be very much higher. The reason would be that the lagging commodity prices would continue to rise for some time after the stabilization and until "they caught up to gold."

ABOUT TWO BILLION DOLLARS OF STABILIZATION PROFITS WOULD GO TO THE GOVERNMENT

If this plan of stabilizing at a gold value of 66½ cents were adopted, every dollar of gold now owned by the Government and every dollar owned by the Federal Reserve banks would become a dollar and a half, and the approximately 4 billion dollars now so owned would accordingly become about 6 billion dollars of the new money. All the profits of the Federal Reserve banks in excess of earnings of 6 percent annually on the capital owned by the member banks ultimately would go to the Government, under existing law. Furthermore, it has been for some time practically the universal policy among countries that have revalued their monetary units to turn over the profits realized on the currency debasement to the Government, which represents the entire people, rather than to permit them to go to the central bank or to any private interest. Under any plan that may be adopted for reducing the gold content of the dollar in the United States, it is clear that all the profits that are realized should go to the Government.

On the other hand, if the Government should use these profits as a basis of currency and credit expansion for meeting greatly increased public expenditure—and the political pressure to do so would be heavy—the result would be a further great inflation and another break-down of the gold standard. The profits should go to the Government, but the gold should go to the Federal Reserve banks, where most of it now is. These profits the Government should use for reducing its indebtedness to the Federal Reserve banks, which at the end of 1933 amounted to nearly \$2,500,000,000, as represented by the Government securities owned by these banks. This indebtedness of the Government to the Federal Reserve banks is at present altogether too large, and makes the circulating credit of the country depend unduly upon Government credit, which is greatly influenced by politics. It would be a real service to our currency and banking system if this debt could be paid off, and if the Federal Reserve banks could become again what they were originally in-

tended to be—central banks devoted to the maintenance of a sound currency and to the provision of reserve credit, when and as needed for the orderly conduct of American business. They were not intended to be, as they are fast becoming, primarily fiscal agencies of the National Government.

GOLD BULLION STANDARD RECOMMENDED

Under the plan proposed for a prompt return to the gold standard, the gold bullion standard should be adopted in place of our former gold coin standard. Gold coins are a monetary luxury under existing conditions, and there is no reason why they should be kept in circulation; at least not unless or until a time is reached when gold is depreciating, and it becomes desirable in the interests of monetary stability to put gold coin into circulation again in order to create an increased demand for the metal. Redemption should be on demand in gold bars of a value of about \$8,000 each, and the Federal Reserve banks should not only give gold for notes on demand, but equally should give notes for gold. This latter provision, incidentally, would prevent a sudden rise in the foreign-exchange value of the dollar, that might otherwise result from a heavy return flow of American capital from abroad, upon the official announcement of a strong stabilization plan.

If the Government should come out clearly and positively for such a plan of stabilization, and if the President in a vigorous, Grover Cleveland type of message should declare it to be the intention of the administration to use all the resources of the Government for maintaining the parity of the currency at this new rate, there would be no danger of a serious depletion of our gold reserves. These reserves would be very large, with the increase resulting from the revaluation of the dollar. Europe could not drain them away because she has long since withdrawn most of her liquid funds from our market. In fact, a heavy return flow to the United States of American capital that has fled abroad to escape the dangers of inflation might well cause a temporary flow of gold from Europe to the United States. The gold would not be demanded by Americans for hoarding in this country or for investment abroad because the stabilization policy of the Government would inspire the public with confidence in its currency. The result of such a bold and prompt stabilization would be a revival of business confidence and a strong impetus toward an orderly and enduring economic recovery.

AFTERNOON SESSION

The committee resumed its session at the expiration of the recess.

The CHAIRMAN. The committee will come to order. Mr. Anderson did not finish his statement yesterday, and I will ask him if he will conclude his statement at this time.

STATEMENT OF DR. BENJAMIN M. ANDERSON, JR., ECONOMIST OF THE CHASE NATIONAL BANK, NEW YORK, N.Y.—Resumed

MR. ANDERSON. Mr. Chairman, I have a few points that I think are significant which I would like to present as briefly as I may.

First, in connection with the stabilization fund about which I was talking yesterday: The danger in the Government's creating it out of the proceeds of devaluation in the form of cash resources of Federal Reserve banks was emphasized yesterday. The danger in any case, however, is that it will recreate an over-extended position as between this country and other countries similar to that which grew up from 1926 to 1929. That danger is very great. France spent 2 years working with stabilization funds instead of going back to the gold standard.

Had France gone back to the gold standard when she made her *de facto* stabilization, so that francs could be issued in Paris only against gold, so that the Bank of France would not have to buy foreign exchange in order to hold the franc down, we would have been saved much of the trouble that subsequently arose. France

would not have accumulated that gigantic volume of sterling and dollars, the liquidation of which in 1931 and 1932 made so much trouble in the world. It is perfectly possible that if we have stabilization over a long period there will grow up a situation where our Government's fund is a lot of sterling, and England's fund a lot of dollars, each of us giving credit to the other involuntarily, neither of us trusting the other very much, with a precarious and dangerous over-expansion on both sides.

Stabilization is an artificial makeshift, used just temporarily, at best, until we get a definite gold rate fixed, and then gold against dollars and dollars against gold, and you do not have need for any stabilization fund at all. That is the way we did it for 50 years. Whether it is gold coin or gold bullion does not matter greatly, so far as the effectiveness is concerned.

One other thing about the stabilization fund. You cannot talk about how a thing will work without seeing the other things that go with it. A physician looking at the eye alone might make a lot of mistakes about diagnosing eye trouble unless he knows the man's stomach is in good shape or unless he knows whether he has this or that or the other thing connected with his organism. It may be nerves and not eye trouble. This stabilization fund must be considered in relation to the rest of the machinery. England can do a lot with its stabilization fund, holding the pound fairly steady in its relation to gold or whatever they choose to use to hold it steady in respect to, because they have a free exchange market and a free gold market in London, and anybody can buy gold there or exchange there. If our Government keeps exchange restrictions and intensifies exchange restrictions so that there is no free exchange market or free gold market, they cannot use this fund effectively anywhere except on the other side of the water, where we will be immediately accused of committing unfriendly acts.

I want to add a sentence to what Professor Kemmerer said this morning. He said—and this is true not only of Germany but of many countries—that as inflation went on the time came when the gold reserves in the central bank were worth many times the total market value of the paper money issued by that bank.

The conclusion I want to draw is that gold reserves are no good unless they are used. Merely piling up gold to admire and talk about does not protect the value of money. It has got to be used. That is what gold is for.

There are minor points, but one of very great importance is this, that when you are taking a profit on the gold of Federal Reserve banks, the only safe way to take it, I believe, is to take it out of their Government securities. I think you ought to leave the Federal Reserves a little of it so as to leave unimpaired the gold value of their capital and surplus. I mean, let them add to their surplus, not to their capital, for technical reasons, that amount which is necessary to keep the gold value of their capital and surplus combined intact. It will not take much to do that out of this vast sum involved.

Senator BULKLEY. Why do you say that? I do not quite get the argument of that.

Mr. ANDERSON. The Federal Reserve banks, like all banks, ought to have a good big margin of their own capital as a protection for their depositors and other creditors against the possibility of loss on

the part of Federal Reserve banks so that there can never be any question of their solvency.

Senator BULKLEY. There never has been any question of their solvency, has there?

Mr. ANDERSON. But if the capital gets too thin, there might be.

Senator BULKLEY. But we are not going to make it any thinner.

Mr. ANDERSON. Yes; you are going to make it thinner in gold value, and the expectation would be——

Senator BULKLEY. But not in proportion to the obligations of the bank.

Mr. ANDERSON. The expectation would be that the liabilities will increase if your plan is successful and the inflation goes through. You are taking a substantial part of their surplus, anyway, for the deposit guaranty fund. If you look at the figures you will find they are not very big. I think it will be good business to leave part of this. I suggest that you think about that. I merely throw out the suggestion. It is good banking, I think, to have adequate capital funds for liabilities.

The provisions regarding gold certificates is another point I want to mention. The term "gold certificates" is not a straightforward term as the bill is drawn now. I think there should be some provision segregating that gold specifically against gold certificates, so that it is something like a warehouse receipt at least, instead of just mixing it up in the general funds in the Treasury as this act seems to do.

And then this provision allowing repeated changes, going beyond the Thomas amendment. It is generally understood to mean that devaluation once done is done thoroughly and fixed, unless there should be later on some act of Congress. The President can do it once, and not twice. This change allowing him to do it repeatedly cannot but be disturbing to the confidence that you want to build up. The whole idea is to give us confidence in our money so that we can go on and do things. That provision ought not to be in there.

I thank you very much for your courtesy, gentlemen.

The CHAIRMAN. Are there any questions? If not, we are indebted to you, Dr. Anderson, for your help in this matter.

(Witness excused.)

STATEMENT OF HENRY PARKER WILLIS, ECONOMIST, NEW YORK, N.Y.

The CHAIRMAN. Will you state your name for the record?

Mr. WILLIS. My name is Henry Parker Willis; occupation, economist; residence, New York City.

The CHAIRMAN. Will you tell us about your study of these questions?

Mr. WILLIS. I have devoted some study to this subject for quite a number of years, and I now teach the subject——

Senator GLASS. Will you be a little more specific, in order that the record may show that you know what you are talking about. You were, as I recall, secretary of the Indianapolis Monetary Conference many years ago and helped to prepare, if you did not wholly prepare it, the report of the monetary conference?

Mr. WILLIS. Yes, sir.

Senator GLASS. You were technical adviser of the Ways and Means Committee of the House when the Underwood tariff bill was enacted into law?

Mr. WILLIS. Yes, sir.

Senator GLASS. You were the technician or technical adviser of the Banking and Currency Committee of the House when the Federal Reserve bill was enacted into law, and also technical adviser of the Joint Committee on the Establishment of the Farm Land Bank System?

Mr. WILLIS. Yes, sir.

Senator GLASS. And, as I understand, your services have been required to set up banking systems in certain other countries and in certain States of this country?

Mr. WILLIS. Yes; I was chairman of the Irish Free State Banking Committee for 3 years and have done a great deal of work for foreign governments in connection with their banking systems.

The CHAIRMAN. You also had to do with the National Banking Act of 1933?

Mr. WILLIS. I had the honor of being attached to this committee at that time.

Shall I proceed now, Mr. Chairman?

The CHAIRMAN. Yes. Tell us what you think about the bill which is under consideration.

Mr. WILLIS. Mr. Chairman and members of the committee, my notice to appear here was very short, less than an hour or so, I believe, and consequently I have not any prepared statement but must ask your indulgence for speaking in a very informal way, merely to give you such thoughts as have occurred to me in a reading of the text of the bill and what I have heard about it incidentally and through conversations.

For the sake of the record—that is, my record only—I should like to say that I have never believed that our abandonment of the gold standard was at all necessary, and I was of the opinion at the time, and still am, that the banking holiday was not necessary. I say that the gold standard and the redemption of our bank currency in gold could have been maintained, and that had that been done we would have been in a very much better position at the present time than we are at the present moment.

I also feel that there is no reason for a devaluation of the dollar at the present moment, and that the processes of devaluation, if carried through, will bring about general harm and injury to our financial and business structure.

I say these things not because I suppose that the committee has any intention whatever of acting upon the principles thus raised, but merely in order that you may know the general point of view from which I start in what I have to say.

Senator BULKLEY. Will you make that clearer? Do you mean we do not need any more devaluation—

Mr. WILLIS. I think it would be better if the dollar should be allowed to go back as near to its original level as we can allow it to go; and if it were left free it would go back to a parity at the old weight and value of the gold dollar.

I recognize that that point of view is not the one from which this bill is written, and I recognize also that to urge anything of that kind,

any course of that kind, is to suggest a reversing of the steps that have been taken, some of which at least would be very difficult to reverse, even if one could reverse them. Therefore I think that the more helpful way to discuss the matter is to assume that devaluation is going to occur, and to inquire whether this bill is the best way to bring it about.

A reading of the measure leads me to think that there are a great many points both of principle and of detail that need careful study and alteration, and I would strongly suggest to the committee that if it be at all practicable the bill be taken under advisement section by section for the purpose of reshaping it and getting it into a more workable and feasible measure, instead of adopting it as hastily as seems to be likely, according to my understanding, with the inevitable necessity later on of correcting it through a process of trial and error.

However, I assume that what the committee wishes is no detailed discussion of that kind, but an expression of opinion on the major questions, which is all that I feel in position to offer today, anyway.

The first point that seems to me to have the greatest importance relates to the question of what is to be done with the gold in the country at the present moment. The plan, as I understand it, calls for the taking over of the entire title to all gold in the hands of the banks, transferring that title to the Treasury Department, revaluing or devaluing the gold at a level not to exceed 60 percent and presumably not less than 50 percent, and then issuing so-called gold certificates against the gold thus devalued. If I understand it correctly, the intent is to have the entire body of gold turned into the Treasury Department to become the property of the United States Government.

There are two points there that seem to me to be definitely raised. One is the so-called "profit" on the gold; the other, the so-called "title" to the gold.

As to the first one, the question of profit, I recognize of course that practically all countries that have devalued their unit have taken over a profit on the gold held by the banks and have turned it in to the Government in the making of the devaluation. I suppose that has been due to the fact that those countries needed the profit and that their courts and other judicial bodies took the view that the profit thus appropriated by the Government originated from an act of the Government and hence was not a private matter.

It seems to me that if that view be taken the use that should be made of the profit is one that deserves very careful consideration, and that where gold is taken away from the banks the profit should be used for the purpose of strengthening and improving the position of the banks. Our banks need that very badly at the present moment; but apparently the taking away of the gold will leave them in the same relative position, dollar for dollar, that they are in now, so that they will be no better off at the end of the operation than they are at the beginning.

The question of the legality or constitutionality of the transfer is one on which I am not able to pass, as I make no profession of a knowledge of law, and what I say with reference to the use of the profit is based entirely upon the economic side of it as I conceive it.

The question of taking over the title to the gold—

The CHAIRMAN. How could the banks use this profit?

Mr. WILLIS. It might be used in very much the same way as the Reconstruction Finance Corporation has been doing it—generally restoring the liquidity and the power of the bank to meet its obligations. I think that if the proceeds are used for restoring our banks to a sound situation it might result in a satisfactory condition of the banks.

The CHAIRMAN. You mean all banks, not Federal Reserve banks?

Mr. WILLIS. I am speaking of all member banks.

The other question, Mr. Chairman, of the actual ownership or title to the gold seems to me even more important. I do not know of any country that has actually itself taken over title to the gold. It seems to me that that is not only anomalous, but likely to cause very serious difficulties in the future. Should we ever go back to an actual gold standard, whether in bullion or coin form, it seems to me that legal difficulties might arise with respect to the ownership of this gold; and I have felt on reading the recent opinion of the Attorney General, although I profess no knowledge of law, that we leave unsettled, according to my understanding, the future disposition of these questions, notwithstanding the fact that it seems to me highly essential that at the very beginning we should foresee, as far as we can, the probable outcome. I suppose, however, we are going to go ahead with the plan of taking over gold in this way.

The second point which strikes me as fundamental is the question of the use of the profit. Certainly there is a strong reason for taking over a profit from the standpoint of practical expediency at the present moment as things stand. If we are going to do that, however, ought we not to get a profit in a form in which it can be used? If we assume that the profit is likely to be in the neighborhood of 4 billions of dollars, then we have 2 billions that is going to be sterilized immediately in the equalization fund, and that accordingly, as I read the bill, will be tied up there; that is to say, it will not serve any immediate useful purpose so far as one can see toward the balancing of the budget or toward the expansion of public credit.

Might not this be overcome by stabilizing it immediately? That is to say, by deciding once and for all what the weight of the dollar should be? Suppose you determined it should be 50 cents: Would it not be a much better piece of work, so to speak, to simply reduce the dollar to 50 cents and thereafter to provide that the export of gold shall be permitted under suitable conditions of which our Reserve banks maintain a surplus?

It seems to me there can be very little doubt that in that case our vast gold reserve, amounting to some 40 percent of the monetary gold in the world, would be amply sufficient to meet any international threats that might be presented, especially in view of the fact that we are ahead both on capital account and merchandise account, even in the present reduced state of our foreign trade.

I cannot see any reason for not taking the step at once if there be—which I have not been able to accept in my own mind—good reasons for taking the step at all. But if there be such good reasons, I cannot see why we should not make it once and for all and make the weight effective, thereby eliminating the necessity for a stabilization fund, and getting the advantage of the proposition, whatever it may be, for the Treasury immediately.

If that idea be unacceptable for some reason that I do not understand, it then seems to me that the margin between 50 and 60 cents

that is suggested in the bill is far too wide. If that amount of fluctuation is to be allowed the stabilized dollar will be far less reliable than the old gold dollar has been for a long period of time, since there is a theoretical marginal fluctuation of 20 percent of the minimum valuation. That seems to me to be far too wide a margin along with the rather extreme and arbitrary provision limiting the movement of the dollar to the extremes that are indicated in the bill. I suggest that if it be determined to keep the bill in that form or something approximating it, the provisions be reversed and that the 50-cent level be made the minimum with a flexible upper limit, but with the understanding that it is to be kept as near 50 cents as practicable.

May I repeat again that I do not think that is necessary and I do not like to see any such devaluation take place, but I believe that stabilization along a definite line is much to be preferred to indefinite stabilization with a 20 percent margin which of course represents a margin about as large as the profits in many businesses are. If there should be that fluctuation you would have the imminent possibility of wiping out all the ordinary profit on a business deal of narrow character such as is engaged in a good deal in international trade.

Senator GLASS. Referring to the stabilization fund, does that involve expansion or constriction of the currency?

Mr. WILLIS. I was about to come to that, Senator, if I may. The reason, as I understand it, for not doing something of that kind, is that there is today a pretty general feeling that it would be possible to move the price level higher, and in some way what is called a commodity dollar system may be installed. I do not understand that the commodity dollar, as advocated by the principal exponents of it, has ever contemplated any such broad margin of fluctuation as that; but it has been quite distinctly stated that whenever a slight variation occurs, alterations are to take place at once for the purpose of bringing it back to that level. So I am unable to understand why the price level, based upon the theories of the stabilizers, would act in the way suggested.

Looking at it from my own point of view I refuse to accept the idea at all that a change in the theoretical weight of the dollar would have any effect whatever on prices. As a matter of fact, in the years 1926 to 1929 we had a price level of something like twice what it is now, something like 140 or 150. We had then an outstanding form of currency and credit that was considerably larger than it is now. We had no trouble in maintaining the price level, and at the present moment relatively speaking the factors that have tended to depress the price level are quite evidently not from the side of money for credit, but are factors of another sort.

The general theory of prices which at present I believe is accepted, regards the price level as the outcome of a very large group of factors, supply and demand of commodities being the most important one of all; and I submit, with all due respect, that there is nothing in recent statistics or statistical experience in this country or abroad to show that the changing of the price of gold would also change at the same time, or shortly, the price of commodities. I believe that the expectation that this kind of a stabilized dollar will bring a higher level of prices is entirely unwarranted, and I say with the utmost earnestness that I believe those who look forward to that will be seriously disappointed in the results. I do not deny that we may have under

the legislation a very much higher level of prices than we have now, but if that should come it will, I think, be much more likely to be the result of changes in trade and the general destruction of wealth on the farms and elsewhere, the abolition of human labor under the National Recovery Administration, and other things which tend to produce scarcity, than it will be due to the raising of prices growing out of a change in the amount of gold appropriate to the dollar but not actually used in any actual business transaction.

Senator BARKLEY. You refer to abolition of labor under the N.R.A.

Mr. WILLIS. Yes. I suppose if a man wanted to work 50 hours a week and had to work 40, you would cut off part of his labor.

Senator BARKLEY. That is hardly described as abolition of labor. That is absorbed by other people who have no work at all.

Mr. WILLIS. That is a large question.

Senator BARKLEY. Yes; but you call it abolition of labor.

Mr. WILLIS. Yes.

Senator BARKLEY. It seems to me labor has been abolished to the extent of about 15 million men in this country, and the efforts of the N.R.A. are to provide work for them.

Mr. WILLIS. I recognize that, Senator.

Senator BARKLEY. The point is, I think it is unfair to designate it as abolition of labor.

Mr. WILLIS. It seems to me that is a social remedy rather than an economic proposition.

Senator BARKLEY. You are discussing it in your economic discourse here. You are describing it as the abolition of labor. It seems to me it is exactly the contrary.

Senator KEAN. Is it not true that people are leaving factories and various places and taking up the Government dole, or whatever you choose to call it, owing to the Government paying such prices, and also providing them with all sorts of things?

Senator GLASS. That is getting us off on the N.R.A. Let us discuss this bill.

Mr. WILLIS. All I meant to say, Senator—perhaps, as you say, it is irrelevant. If so, I will be glad to strike it out.

Senator BARKLEY. I do not want you to strike it out. Leave it in there.

Mr. WILLIS. Thank you very much.

What I want to say is this: I think we are much more likely to get increased prices through the methods of the N.R.A. than we are through this.

At any rate, I think the statistical and other evidence is against the idea that a theoretical change in the rate of the dollar will bring the level of prices to any higher point than they stand today, at the present time.

One further point relating to the use of the stabilization fund. I understand the bill to place the use of that fund in the hands of the authorities of the Treasury Department of the United States, and to authorize them to engage in a great variety of transactions which are ordinarily thought of as central-banking transactions. The Congress, in the Banking Act of 1933, has created a body to perform those functions. That body is called the Open Market Committee of the Federal Reserve system, whose mission it is, as I understand it, to decide when credit is to be released and contracted through open-

market operations. It seems to me that that body is entirely capable of carrying on the work that is spoken of here as allotted to the Secretary of the Treasury. The Federal Reserve System has certainly never been slow to follow out the instructions and wishes of the Secretary of the Treasury when for the public welfare, and it seems to me that it is likely to do it at the present time.

If it be answered to that that the Secretary of the Treasury will necessarily or naturally place the performance of these functions in the hands of the Federal Reserve System, and perhaps in those of one or two of the Reserve banks especially, it seems to me that that is not a sufficient reply, but that the question is where the responsibility on the whole matter rests, and the final decision as to the character of the policies. That, it seems to me, is essentially a central-banking function. It is so regarded in England, and if I am not mistaken, it is the practice in all other central-banking countries where stabilization has been carried on.

Senator BARKLEY. Do you think it is better, if the Secretary wants something done, to get somebody to do it rather than do it himself?

Mr. WILLIS. Yes, if that other person is better able, and has the machinery to do it.

Senator BARKLEY. You do not agree with Benjamin Franklin, when he said that if you want a thing done right you should do it yourself?

Mr. WILLIS. I wish we had Benjamin Franklin here now. I think he would be opposed to this bill.

Senator GLASS. But he would agree that it is consistent with all banking instinct and banking practice, that a Secretary of the Treasury who is not a banker does not know how to bank.

Mr. WILLIS. Be that as it may, the practice of the countries of the world in connection with this matter has been to get this work done through the agency of their central banks, and where it has been most successfully accomplished I believe it has been done through the public-spirited exercise of central banking authority, through responsibility of the Government of the country, and, of course, with regular reports and consultations with them, as we understand to be the case in England.

In the provision relating to the exercise of this function many very great powers are bestowed which seem to me to have but little relation to it. Among those is the power, as I understand it, to deal extensively in the public debt. It seems to me that that is not a function that has to do with the process of stabilization or equilization, necessarily, and is essentially one that should be relegated to the fiscal agents of the Government again under the instructions of the Government itself, for their performance.

If the act, then, is to remain in the same general form as now, with the stabilization function in the hands of the Secretary of the Treasury, I feel clear that the powers should be very greatly limited, and that only those distinctly relating to stabilization should be bestowed upon him as an officer of the Government.

I think that there is a good deal of confusion of language in the bill, and particularly section 9 seems to me to be obscure, as it gives him the power to buy and sell gold, as I understand it, both at home and abroad. It is difficult to see how he would sell it at home if,

under the other provisions of the bill, the individual man or bank is not allowed to hold it.

The CHAIRMAN. That is section 10.

Mr. WILLIS. Section 9, I have it here, line 14. Section 9 certainly ought to be clarified a great deal, and in the process of clarification, I suggest that consideration be given to a fairly complete rewriting of the powers to be exercised under the stabilization authority, quite as much for the sake of clearness and success in the administration of the fund as from any theoretical standpoint or criticism whatever.

I think, gentlemen, that I have covered the main things that have occurred to me in my survey of the bill adding, again, my thought that there are a great many points of detail and technical matters that seem to me to demand attention. I believe I have covered all that I should occupy your time with today.

The CHAIRMAN. Are there any questions?

Senator WALCOTT. I would like to ask Dr. Willis if he does not feel, in view of his remarks, that we ought to take time enough to examine it thoroughly and try to work out some modifications, if we are going to save any part of it.

Mr. WILLIS. In reply to that, Senator, I will say that I think the measure before you is, by all odds, the most important measure that has come up since the Civil War, and I think it involves a great many large considerations which we all ought to regard as the most fundamental things in our whole structure in monetary and financial life. The bill fundamentally changes the basis of our money. It basically alters the structure and responsibility of our Federal Reserve System. It completely reverses the theory upon which our bank currency is now being issued, namely, that it should be regulated in proportion to the needs of business.

Senator BARKLEY. How does it do that?

Mr. WILLIS. In this way, I think, Senator: In the Federal Reserve Act the amount of currency outstanding, under the terms of the act originally, was dependent upon the existence of eligible paper which was produced by business men in the course of their transactions. We would say that the bank currency of the country represented a surplus of buying power, or medium of exchange, which varied according to the need for a medium of exchange created by the people in their commercial operations.

Senator BARKLEY. How does this interfere with that?

Mr. WILLIS. Because it seems to me it places the ultimate determination of the amount of currency outstanding in the hands of the Federal authorities, rather than those of the Federal Reserve.

Senator BARKLEY. The only thing it does, it seems to me, is to make it possible for the Federal Reserve System to issue the same amount of currency it now can issue, upon these gold certificates, instead of from the gold that they have in their possession. But they can do that now. They can issue all the currency the country might demand, based upon gold certificates they might have now.

Mr. WILLIS. You would not say the same of the credit, would you?

Senator BARKLEY. I do not see any difference at all, so far as the 60-percent credit currency is concerned, based upon the stable assets of the country.

Mr. WILLIS. But isn't it true, Senator, that the use of the profit in the way contemplated by the act would give rise to a very large

volume of surplus reserves that protect bank credits based upon them, and consequently a very large volume of credits probably to be invested, as was done just before 1929, in securities of all kinds?

Senator BARKLEY. I do not think so. I might differ with you about that.

Mr. WILLIS. It is a difference of opinion, Senator. I suppose what you want me to do is to state my views.

Senator BARKLEY. Of course I do; but Governor Black and Governor Young have both testified at this hearing that this will not in any way change their operations in the matter of issuing currency; that the difference would be that instead of issuing it in part on actual gold in their possession, and in part on gold certificates as they do now, they will issue it all on the gold certificates represented by the gold that the Treasury takes over.

Mr. WILLIS. I can only say that in 1928 you had a hearing, at which I appeared by your invitation, and at which some of these same gentlemen appeared, and they stated that there was not the slightest danger of an excessive expansion of credit.

Senator BARKLEY. I do not recall that Governor Black or Governor Young appeared and said that.

Mr. WILLIS. Governor Young was here.

Senator GLASS. Governor Young did. But the vital difference is that under this bill they are issuing irredeemable currency, whereas at the present time they are issuing currency redeemable in gold.

Senator BARKLEY. It is not at present redeemable in gold.

Mr. WILLIS. May I say something which, of course, I have to give merely from general understanding, and that is that I believe that the country at large, the financial people at large, believe that this act provides the materials for a very great credit and stock-market inflation. They may be wrong or they may be right, but with the recent experience we have had in that regard, it seems to me that every care should be taken to safeguard against any possibility of that kind, especially as you can do it perfectly well and yet attain the main objects you are after in this measure.

Senator BULKLEY. I do not quite understand how you reconcile that statement about affording the basis for an undue expansion with the other statement you made a few minutes ago, that this \$2,000,000,000 in the stabilization fund will be sterilized.

Mr. WILLIS. I did not say it would. I said that in certain conditions of operation it might be. In other words——

Senator BULKLEY. The two things are directly opposite, are they not?

Mr. WILLIS. Quite. The thing I object to in the bill especially is the lack of clarity about these matters, so that either one of opposed results may obtain, according to the way in which the thing is handled. In other words, the bill seems to me to open many doors——

Senator BULKLEY. To make this clear, do you mean that either one of them could conceivably happen, and either one of them would be a danger?

Mr. WILLIS. A danger from the point of view that you take. For example, if what you are after is building up the Budget, there would certainly be grave danger in tying up half your profit and not using it. If what you are after is getting a sound banking system, it would certainly be a grave danger to have an undue enlargement of speculative credit. It depends on what the object is. I think a serious

objection to the bill is that it has a great many objects which are more or less in conflict with one another. I can understand perfectly well the motive we all feel so keenly of providing a help for the Budget. I can also see a desire that many people feel to move prices up, and I recognize that they are perfectly conscientious in thinking that you can do it by a change in the supply of the circulating medium, and so forth. It seems to me that many of these objects are quite inconsistent with one another, and that the trouble with the act is that it does not have a single purpose in view, to which all its sections and paragraphs are subordinated.

Senator GLASS. How do you manage to conceive the notion that we want to safely adjust the Budget, when we are assuming an indebtedness of \$2,000,000,000, which we did just the other day; assuming the indebtedness of the farmers of the country; and now, in a day or two, we will assume the indebtedness of the home owners to the extent of \$2,000,000,000, and we are literally shoving out funds to everybody, for everything?

Mr. WILLIS. I have to go by the record.

Senator GLASS. That is the record.

Senator WALCOTT. What is that record?

Mr. WILLIS. The Democratic platform called for a balanced Budget, and I am simply going by the record in saying that I assume the object of many of these things is to produce a balanced Budget.

Senator BARKLEY. Do you think the budget ought to be balanced to the exclusion of all these emergency activities?

Mr. WILLIS. Of course not; but if you get \$2,000,000,000 more or less, you are that much nearer to balancing it.

Senator BARKLEY. We were told, in a hearing before the finance committee held a year ago, that the remedy for all the evils that beset our country was to have a balanced Budget.

Mr. WILLIS. That is an extreme statement that I do not suppose anybody really takes very seriously.

Senator BARKLEY. A very serious gentleman proposed it as a remedy for all our evils.

Mr. WILLIS. The question of how often the Budget must be balanced is a difficult question, which appears in different forms in different countries. You might as well balance it every day, according to some. According to others, it should be balanced at the end of a period of years. The actual balancing of it is a technical question which I do not feel competent at all to discuss. It does seem clear that if you have \$2,000,000,000 free, you are nearer to balancing it than you are if you have not the \$2,000,000,000.

The CHAIRMAN. Are there any other questions? If not we are very much obliged to you, Doctor.

STATEMENT OF W. RANDOLPH BURGESS, DEPUTY GOVERNOR, FEDERAL RESERVE BANK OF NEW YORK, NEW YORK CITY

Mr. BURGESS. With your indulgence, gentlemen, I should like to present a brief statement.

The CHAIRMAN. Very well. We will be glad to hear from you regarding this bill.

Mr. BURGESS. The bill before you covers a number of difficult and technical points. While drawn primarily to meet an emergency

situation it is not solely an emergency bill but makes fundamental and permanent changes in the American monetary system.

It is obviously impossible for me to discuss helpfully all parts of this bill, and I shall attempt to discuss only one aspect; namely, the provisions of the bill relating to the use by the Government of the proceeds of devaluation.

Quite properly, it seems to me, the bill provides that the increase in the value of gold due to devaluation goes to the United States Government. These proceeds range in value from \$2,700,000,000 in the case of a 40 percent devaluation, to \$4,000,000,000 in the case of 50 percent. Even the smaller figure is larger than the total gold reserves of the United States until after the war. The sudden creation of this vast gold supply constitutes a problem in utilization and control of which it is clear the drafters of the bill were acutely conscious.

The act of devaluation is potentially equivalent to the importation of that much gold. On the basis of this gold a huge credit volume can be erected. Even on the smaller sum a credit expansion of something like \$27,000,000,000 could easily be erected, and on the larger sum, over \$40,000,000,000. Either figure would double the amount of bank credit outstanding in this country.

Of course, no such credit expansion would take place immediately or automatically. Credit expansion takes place only as a result of hundreds of thousands of acts of bank officers as they make loans or investments, and credit expansion flows not simply from the total quantity of bank reserves available, but is a result also of the thousand and one influences which determine whether individual borrowers will apply for funds at their banks and whether individual bankers will make the loans. At the present time the availability of a large potential reserve fund will be a stimulating influence which may be helpful in restoring a more adequate volume of credit. The attitude of borrowers and lenders is so cautious that we do not need to fear at the moment the inflationary effects of a considerable increase to bank reserves.

This, however, is permanent legislation, and there will come a time when confidence is more fully restored, when borrowers will want to borrow, and lenders will want to lend to the full amount of the available funds. So, it becomes important to consider how these huge funds may be controlled to avoid overexpansion of credit. The excesses of the recent boom were, I believe, in large part the result of excessive credit built upon gold imports of about 1½ billion dollars. Through the act of devaluation it is now proposed to release a sum approximately twice as large. This is added to a present gold reserve which was large enough to support the excesses of 1929. Here is potentially a grave danger. If this were solely an emergency act and reversible, we should not have to worry, but it is more than that.

I believe that those who drew this bill were fully conscious of these dangers, for they have provided an ingenious method of impounding this gold which constitutes one of the most important and valuable features of the bill. For the bill provides that \$2,000,000,000 of the sum resulting from devaluation shall not be used for current expenditures of Government but shall be set aside as an equalization fund, and shall be spent by the Secretary of the Treasury only as it shall be required for stabilizing the exchange value of the dollar or for the

purchase of Government securities. The fund is wisely set aside as a huge trust fund held in trust for the people.

The provisions for the expenditure of the fund are, in my mind, the most crucial point in this entire bill, for whenever the fund is spent that act is equivalent in its effect on the credit situation to a gold import of a corresponding amount. This is true whether the expenditures are made for purchases of foreign exchange, Government securities, or anything else.

As I indicated above it does not seem to me that this is a point of immediate danger. At the present time we need not hesitate to place in the hands of the administration adequate powers to deal with the emergency, but from a longer range point of view I should like to raise two questions for your consideration: First, whether the control over expenditures from the trust fund is adequate, and, second, whether there might not arise conflict and interference between the decisions reached by the Secretary of the Treasury in making purchases or sales in this fund and the decisions as to monetary policy reached by the legally constituted authorities of the Federal Reserve System, upon whom has rested the primary responsibility for general credit conditions.

Under the bill as drawn the decision as to expenditures from the fund rests solely with the Secretary of the Treasury. It is not difficult to conceive of a situation in which the Federal Reserve System, operating through the Federal Open Market Committee, the Federal Reserve Board, and the directors of the 12 Federal Reserve banks, would decide upon an open-market policy, let us say, to sell \$500,000,000 of Government securities in order to tighten money rates and stop overexpansion of credit. A single member of the Federal Reserve Board, the Secretary of the Treasury, might leave the meeting where this important decision was reached, and then, operating by himself alone, could completely offset the influence of the entire Federal Reserve System by the expenditure in some form of \$500,000,000 from the equalization fund.

Senator GLASS. He does not have to leave the Board.

Mr. BURGESS. This is hardly a danger at the moment. I am sure the present Secretary of the Treasury is fully aware of this difficulty.

I would like to interject here, Mr. Chairman, that in the New York bank we are in constant and continuous touch with the Treasury Department, and we are helping them carry through an enormous volume of operations, and we have grown to have great confidence in the present Treasury Department.

But this bill provides a permanent plan. There will come afterward many Secretaries of the Treasury who may not appreciate the dangers which lurk in the use of this fund. The Secretary of the Treasury is, after all, a political officer. Pressure upon him is always in the direction of easy money and expansion. He is made the sole trustee of a fund from which he himself is principal borrower.

I would like to say that again. He is made the sole trustee of a fund which he himself is the principal borrower.

I would suggest that in the permanent control of this fund the Secretary of the Treasury needs a wicked side partner more or less impervious to political influence or unpopularity, not afraid to say no.

Senator COUZENS. Senator Glass would fit that.

Mr. BURGESS. Let me say, as an aside, that one of the principal duties of the Federal Reserve System is to act as a buffer. That is one of our functions, to be the "goat." We are silent and can take criticism. That is one of the principal functions of the bank of issue, to stand between the Government and commercial banking.

Senator GLASS. You have been made the goat for 12 years.

Mr. BURGESS. We have no press agents, and we remain silent, and perform the function of being the goat.

In order to prevent duplication or conflict of function that wicked side partner needs to be some agency of the Federal Reserve System. Only so, I believe, can this vast fund of money be prevented from becoming a dangerous force for inflation and a force not only able to nullify completely at times the action of the Reserve System in the control of credit but one quite dividing the responsibility for the control of credit so that it is not fixed definitely at any point.

Without proper safeguards this section might at times defeat the purposes of the Federal Reserve Act and set up what is in effect a competing agency for credit control. The proposed scheme may not be dangerous for the brief period of the emergency but as a permanent plan I believe it needs modification.

I should like to add this further thought. Even under the wisest and most discreet handling of this fund the very act of devaluation, with its huge additions to the country's gold reserves, carries with it the need for a further thorough examination of the mechanism by which overexpansion of credit may be avoided when the time comes. In many different ways through this emergency period we have created, and wisely so, a huge volume of reserve funds which is now relatively quiescent. As confidence is restored and as recent experiences recede into the distance these huge supplies of funds will again become active.

We need to overhaul our mechanism of control, and we need to do it well in advance of the occasion for its use, because, with the return of prosperity the psychology of the people changes and we grow impatient with control. The banking bill of 1933 has gone far in this direction, but the problem is so great that still further means of control will be required.

Senator GLASS. Mr. Burgess, let me ask you if, under section 10 of this bill, unless it may be taken to repeal the open market provision of the Banking Act of 1933, which merely made statutory a practice of Federal Reserve banks, you may not find yourselves at the banks engaged in the same sort of activities that the Secretary of the Treasury will be engaged in; and may you not, on the contrary, find yourselves at cross purposes with the Secretary of the Treasury?

Mr. BURGESS. That seems to me entirely possible.

Senator GLASS. It is not only possible, but it is extremely probable, unless the Federal Reserve banks, in some degree at least, assert and maintain their independence of the Treasury, is it not?

Mr. BURGESS. Yes, sir. It seems to me that difficulty, Senator, could be avoided if someone or some body from the Federal Reserve System were associated with the Secretary of the Treasury in the trusteeship of this fund—perhaps the Federal Reserve Board; perhaps the Governor of the Board; of course, I feel the body to control this fund should be much the same body that would control open market operations, the Federal Open Market Committee and the Board.

That would make, however, a pretty cumbersome body, because the transaction of any business in foreign exchange has to be done quietly and confidentially. I would think some plan could be worked out to associate some officer or body—perhaps the Federal Reserve Board—with the Secretary of the Treasury, and avoid this difficulty.

Senator GLASS. Mr. Burgess, do you conceive, as some people seem to conceive, that the Federal Reserve banking system was set up to finance the Treasury? Or was it set up to finance business and agriculture and industry?

Mr. BURGESS. I have always felt that the primary duty was to finance business and agriculture and industry. It is the fiscal agent of the Treasury. I think it is always true, particularly in periods of emergency, that the central bank must help the Government in its financing program; but in that way lies danger. That way needs to be guarded with the utmost care, because it is on that rock that many a ship has sunk.

Senator GLASS. This ship is about to be sunk on that rock, too.

The CHAIRMAN. Are there any other questions of Mr. Burgess?

Senator GLASS. I would like to ask you a lot of questions that you would not like to answer. [Laughter.]

The CHAIRMAN. We are very much obliged to you, Mr. Burgess.

There are some people who have signified their desire to appear, and some people whom Senators have requested to appear, who are not present at this time. We have a Mr. Eisler, of Austria. Will you come around, Mr. Eisler, and furnish us some views which may not bear directly upon this bill, but may, perhaps, have some relation to it?

STATEMENT OF ROBERT EISLER, OF VIENNA

Mr. EISLER. Mr. Chairman, and gentlemen, my name is Robert Eisler. I am a doctor of philosophy, a member of the Austrian Historical Institute, and the author of a general history of the monetary system; the author of a book on "Stable Money"; and I am considered an authority on the Continent on the question of real monetary stabilization. I have had the honor of being heard before this committee in executive session on the main program of reflation, that is to say, of raising the price level.

This question has come up again this morning, and a number of witnesses as well as members of the committee have said, with perfect propriety, that the process of raising the price level would defeat itself and give no benefit to the country if, at the same time, incomes were not raised in proper proportion.

I am entirely in agreement with those witnesses who have stated that the present bill contains, in itself, possibilities of inflation such as have never existed before in this country or in the British Empire.

If these possibilities are fully used—and I believe that in the course of time they cannot fail to be used, because of the situation of the Budget, because of the obligations to which the present administration is already committed—in this case prices will rise. They will rise, in my opinion, which is based on definite mathematical analysis, much more than by 50 percent. They may rise by much more than 200 percent. If wholesale prices are raised to such an extent the cost of living must go up, the cost of living will go up considerably.

Advocates of inflation frequently state that the cost of living need not go up very much, because it did not fall very much when prices fell to about 50 percent. This is not true, because when prices have been falling for a considerable time, neither wholesalers nor retailers have any considerable stocks on hand, and will therefore be forced to follow what are called repurchasing prices very quickly. If the cost of living, that is to say, retail prices, rise considerably, it is obvious that all those laborers, civil servants, annuitants, owners of insurance policies, all the endowments and foundations on which the educational system of the country is based, and which Dr. Kemmerer has mentioned this morning, will be unable to buy what they buy actually, let alone the increased production which we must achieve if we want to absorb unemployment.

We will therefore have to face considerable increase in production and, at the same time, seriously impaired and seriously diminished consuming capacity of this country and other countries following suit. This will tend to create a vast amount of unsalable commodities, which will accumulate on the shelves of the retailers and in the warehouses of wholesalers, and finally in the factories of primary producers. The enormous amount of unsalable commodities will break down the price level very speedily, and while we attempt to permanently raise price levels, we will simply prepare the way for a new crisis more formidable than the one of 1929.

On the other hand, I consider it entirely essential to raise the wholesale price level of this country, because I am firmly convinced, on the basis of mathematical analysis, that the present debt superstructure is unbearable for this country, and that if the price level is not raised this country, as well as other countries, are virtually bankrupt.

The solution of the dilemma or the problem which we have to face is simply, as was said this morning, to increase all incomes in the same proportion in which the cost of living goes up. That can be done in one way only—and I am willing to prove this against any objection. There is no other way of increasing automatically and continuously all the incomes in this and other countries but to give full compensation to every creditor.

Every laborer, every officer, every white-collar worker, is a creditor to the extent to which he lends his work for 1 week, 1 month, or 1 year, to his employer. There is no other way of increasing his nominal income in such a way that his real income remains unimpaired but to give him constant compensation for the loss which he otherwise would suffer through the depreciation of the money which we have to face for the immediate and for the further future. This could be done by inserting a one-line amendment into the Thomas-Rankin amendment, on which the present discretionary powers of the President in monetary matters is based.

If the circulating medium, the bank notes and coin of the country, and of other countries, are declared legal tender to the amount of their purchasing power on the day of payment, it follows automatically and logically that nobody can be paid off in depreciated currency. If you deposit today \$100 in a bank and thereby create a contract under which you are entitled to draw out of the bank the equivalent amount of money and purchasing power under the actual system, and under the system which will exist in this country under the new legislation, the bank would be allowed to repay you in depreciated currency,

although the cost of living may have gone up from 100 to 110, and even to 150 or 200.

If the cost of living has gone up to 150, your money is depreciated by one third. Nevertheless the bank will be allowed to repay you in currency worth 66% cents. Every man, every employer who has borrowed money from the bank when the index was 100 will be allowed to repay it, when the dollar will be worth 66% cents. To that extent every borrower will get a premium on borrowing. He will not pay the interest which he has agreed to pay, but, contrariwise, the bank will pay him for having carried away money. He will produce commodities with depreciated money. He will invest it in machinery, as has been done in Germany and Austria, where great industrialists have completely modernized their plants with the stolen money of widows and orphans.

On the contrary, if a 1-line amendment could be inserted into the Thomas-Rankin amendment declaring all these coins and notes hitherto issued or coined by or under the authority of the United States legal tender for all debts, public and private, to the extent of their purchasing power on the day of payment, every creditor would have to be constantly compensated for loss occurring through depreciation of the currency. The bank would have to pay 110 cents to the depositor of \$1 as soon as the cost of living has gone up from 100 to 110. You would have a circulating medium worth, not the face value of the bank note or the coin, but the face value divided by a suitably constructed, scientific cost-of-living index. Under this system every single worker, every single trader, would get every week exactly the amount of compensation in currency which would make it possible for him to buy, in spite of raised prices, what he had bought the week before.

Only by such compensated reflation, the detail of which is explained in further detail in published books of mine, could you add constantly to the total purchase power of the United States and all other nations. Ordinary inflation, such as is possible and contemplated under the present bill, is equivalent to robbing Peter in order to pay Paul. But it is perfectly possible, and I say this in opposition to Mr. James P. Warburg who has said this morning: "It is not possible to do anything without damaging somebody." The process of what I call compensated reflation would allow you to expand your monetary system in such a way as to inflict no damage whatsoever on anybody. It would permit those who have employment today to keep what they have in the way of purchase power and at the same time purchase power be added to those who are today unemployed. If everybody is compensated for the loss of purchase power which he would otherwise sustain through inflation, then purchase power can be added to the unemployed by converting them into fully employed workers without taking away anything from anybody who has at the moment purchase power as the owner of salaries, wages, or contractual incomes of any other sort.

I cannot, in the limited space which is allotted to me through the kindness and courtesy of this committee go into the technical details. I will be glad to answer questions as they are put to me, and I will say and make this assertion now, that it is perfectly possible to have reflation to the extent necessary to alleviate the present intolerable burden of indebtedness, without damaging in any way the creditor

class, including labor, including the endowed foundations on which the university system of this country rests.

I should like to add very briefly a few words more on the fact that if this country returns to a gold standard, modified or not, to a gold standard under which the monetary unit is convertible, either into a fixed or into a variable amount of grains of gold; this country must have, according to stringent mathematical demonstrations, periodical crises such as have occurred every 6, 7, 8, or 9 or 10 years all through the industrial system. If this country returns to gold either in the old or the new form, these crises will occur, the next one occurring not very late after 1936, maybe before, the date of these recurrent crises being perfectly calculable by the new mathematical methods.

Senator BARKLEY. In other words, you think we are likely to get into another fix before we get out of this?

Mr. EISLER. Quite. I am entirely convinced of that.

Senator GLASS. Why on earth should you make it in 1936, when we want to reelect another Democratic President and Congress? [Laughter.]

Mr. EISLER. I cannot help the fact that according to the formulas worked out in my bureau of mathematics we think that this is about the margin, the latitude which you can achieve by expanding credit in one of the forms which have hitherto been suggested.

I think that if this country returns to gold instead of returning to a stabilization of the exchanges by means of mutual credit, if it returns to a gold standard instead of returning to a perfectly acceptable sterling-dollar standard, the greatest opportunity in history would be missed and another generation will have to carry the weight of an unfortunate and entirely obsolete monetary system. We have now a system based on Peel's banking act of 1844, not improved, but many times deteriorated since. What we have now is just as it was in 1844. We have a monetary system which is contemporary with the first locomotive, with Stephenson's "Rocket", and nobody should be astonished at the conclusion that the system has repeatedly broken down and will break down if it is continued in operation. It is the one unique occasion for getting a scientific monetary system into existence. If this opportunity be missed, it may be missed for an entire generation.

I thank the chairman for giving me this opportunity.

The CHAIRMAN. Then you are substantially of the same opinion as the other authorities whom we have heard?

Mr. EISLER. I am entirely in agreement with Dr. Anderson, with the Governor of the New York Reserve Bank, with Dr. Kemmerer, that the creation of excess bank reserves will, in the end, under natural pressure, lead to inflation.

And I should say that there is a precise way of defining "inflation" which is very near a definition which Dr. Kemmerer has given to us. He has said that money and credit ought to be expanded to the extent of the requirements of trade. This is not the latest and most precise definition obtainable. It ought to be expanded in the relation, in the measure, in which the potential producing capacity of the country is expanding through the technological progress. Because, if it is not expanding to that extent, we must have increasing unemployment, and under the pressure of increasing unemployment any system will always break down.

On the other hand, if we have no unemployment left—and that is perfectly possible by and under a scientific monetary system—in a society in which there is no unemployment every new employer entering the field with a new branch of production must engage laborers which are at the moment engaged by one of his competitors. He can do that only by offering higher wages. Under a system in which there is no unemployment—and such a system can be achieved by scientific monetary reform—the laborer of every description must have maximum wages. Under such a system, when capacity production is not only possible but inevitable, employers must have maximum profits, because they will operate at capacity production and will be able to sell whatever they produce at a price which will constantly compensate them.

Senator BARKLEY. Have you a definite system or monetary program that you care to submit?

Mr. EISLER. I have, Senator. I have worked out not only this one-line amendment, which could easily and in a short time be passed, but at the end of this mimeogram you will find a definite and complete draft of a monetary law explaining the way in which a modern reserve bank ought to expend credit and currency, both for the stabilization of the exchanges and for the achievement of an optimum price level.

I am not in favor of achieving a rigidly stable price level, but a slowly rising price level. If it rises by about 1 percent a year, that would be about the optimum, and it is perfectly possible.

Senator BARKLEY. Have you submitted this plan of yours?

Mr. EISLER. I have submitted it in executive session.

Senator BARKLEY. No; I mean to different nations.

Mr. EISLER. Oh, yes; it has been submitted to the British Parliamentary Finance Committee on the 10th of February 1932. I was introduced at that time by Sir Robert Horne, former Chancellor of the Exchequer, and a vote of thanks was moved by the former Minister of Colonies, Mr. Leo Amery.

Senator BARKLEY. Has any nation adopted it?

Mr. EISLER. No nation has adopted it. It can be adopted not by any nation of the small size of my own—I am an Austrian—it can only be adopted by a sufficiently large and independent economic unit. The unit must be self-sufficient to the extent that it needs no essential imports from outside. The United States are self-sufficient to the extent of 94 and probably 95 percent. The British Empire is self-sufficient to the extent of 93, probably 94, percent. Each one of them could adopt a perfectly sound scientific monetary system and have no unemployment ever after. If the two Anglo-Saxon nations were to work conjointly they could completely revolutionize the world and achieve such prosperity and such wealth as cannot be dreamed of under present circumstances.

Senator ADAMS. How do you propose to determine the purchasing power on each day of payment? If I understand you, your plan is that all currency shall be accepted at its purchasing power on the day of payment.

Mr. EISLER. On the day of payment.

Senator ADAMS. That involves an ascertainment every day.

Mr. EISLER. Every week would be vastly sufficient, because the movement would be extremely slow. We would begin with ascer-

taining the cost of living every week. The gentlemen are perfectly aware that the cost of living has risen under this administration in 6 months by 5½ percent. Ascertaining the cost of living every week would be vastly sufficient. I would base the cost of living not, as now, on the laborer's budget for two reasons: First of all, because that would be injustice to all of those who have a higher standard of living, and we hope to see a higher and not a lower standard of living achieved by the majority. I would base it on an easily ascertainable budget—

Senator ADAMS. Who would make this ascertainment?

Mr. EISLER. The Bureau of Labor Statistics and the statisticians of the New York Federal Reserve Board, under the most able direction of Dr. Carl Snyder, who are fully qualified to do it.

I would base it on the budget of a man, of a citizen, who pays an income tax but no supertax; that is to say, on the basis of an income between four and eight thousand dollars of present purchasing power. But I would have to do it in properly weighted proportions, and I will immediately define the proper weighting.

First of all, the cost of rented house room, of local transport, of public services as represented by rates and taxes, and of all the commodities, including gasoline, cheap cars, and such things which enter into the budget of a four to eight thousand dollar man.

As to the proper weighting, it is generally supposed to be an element of arbitrary decision. I call a proper weighting of such an index the weighting corresponding to actual ascertained expenditure, to wit, what a gentleman of that class—I purposely said "gentleman of that class"—spends. That is the proper basis of weighting this index.

The index would be taken in one city, for example in New York, and that would be perfectly sufficient, because the variations in other cities would take care of themselves in a very simple way, which is easy to explain if questions are put.

Senator WALCOTT. Doctor, does your plan differ in any material degree from the Irving Fisher plan?

Mr. EISLER. The gentlemen will find in the mimeogram which has been distributed and of which other copies are available a statement of four pages explaining definitely, and I hope clearly, the fundamental differences between what I call a dollar of compensated banking money and a dollar such as Professor Warren and Professor Irving Fisher advocate.

Briefly, the difference is this: All these gentlemen want to stabilize the purchase power of our incomes by acting on the purchase power of the monetary unit. I am of the opinion, which has been expressed today by several experts, that this cannot be done. The reaction on prices of the monetary unit is much too slow to do this. What I propose is to leave the monetary unit entirely alone. Whether you make it gold or silver or greenbacks, even if you adopt all the provisions in this bill, if you inflate more or less that will not in itself do any harm if all contracts are compensated on the basis of a stabilized unit of banking money.

This system proposes to have an internal exchange between the currency, which may be depreciated, which may be depreciated to one tenth or one twentieth of its value. Nothing is easier than to depreciate the currency. But you would have an entirely stabilized

unit of contract and bank money, and in contract and bank money 91 percent or perhaps 92 percent of the business of this country is transacted, and this dollar would be automatically and under the law and with no possible exceptions the honest dollar which would buy a generation hence what it buys now, the honest dollar to which this administration is committed by the President's proclamation.

The CHAIRMAN. How much gold have you in Austria?

Mr. EISLER. We have very little gold, and what we have does not belong to us because of the fact that if we were to begin to pay our debts we would lose all the gold we have. Therefore, we have exchange restrictions. We have limited the functions of our monetary system to provide a balance of trade. Mr. Vanderlip mentioned today that this is what he contemplates. We have a clearing system in which importers demand foreign currency from the exporters. That is to say, we can import exactly as much as we export.

We have a monetary system which has reduced our foreign trade to the state of barter, and I should like to say in reference to what Mr. Vanderlip has said that this is the proper way for an impecunious and almost bankrupt debtor country to act; but it is an entirely improper way to act for the greatest creditor nation in the world, because, under such a system, this creditor nation cannot be paid in any way whatsoever what is owed to it. The greatest creditor nation in the world must act in such a way that it can be paid what we owe to it. And that could easily be done by stabilizing the exchanges between the dollar and the pound by means of mutual credits.

The actual difficulty of stabilizing the exchange rates, the British wanting a pound worth \$3.50, the United States wanting a dollar of which 5.8 go to the pound, this impasse, this unsolvable difficulty, results simply from the fact that there is a disequilibrium between wages and prices in Great Britain, due to the fact that the trade unions in Great Britain are extremely powerful and that the American Federation of Labor has no power whatsoever on the wage level of this country.

If England were to raise its price level to the extent corresponding to its actual wage level, the pound would fall on the international markets to an equilibrium level which would make it perfectly possible to stabilize by mutual consent the dollar at such a rate that the external trade of the United States and of the British Empire would balance equitably without any one of these big systems trying to steal a march on the other, and universal prosperity in the world could and would result from such a procedure.

Senator GOLDSBOROUGH. Mr. Chairman, if it is agreeable to you, I would like to make a motion to adjourn.

Senator BULKLEY. I want to ask, have you a short article on the gold standard that you wanted to have printed in the record?

Mr. EISLER. Yes. I have written two articles for the Manchester Guardian Commercial for June 10, which was published just before the World Monetary Conference. This has been distributed to the members of the committee, and I should be most obliged if the members would vote that it should be incorporated into the record. It contains charts and data which I hope would be of use to the members of the committee.

The CHAIRMAN. Without objection we will put it in the record.

(The article submitted by Mr. Eisler will be found printed in full at the end of this day's record.)

Senator BARKLEY. Mr. Chairman, is there any way to have any understanding at all about how long these hearings are going to run?

The CHAIRMAN. We have people enough summoned here now to occupy us practically all of Monday. We can finish with those that are now on the list I think Monday, but whether we will or not, whether there will be some more around, I do not know—unless we agree not to hear any more. I would be glad if you would signify, if it is agreeable, that we will conclude these hearings on Monday.

Senator BARKLEY. I would like to offer that motion.

The CHAIRMAN. All in favor of the motion say "aye."

(Chorus of "ayes.")

Senator WALCOTT. What is the motion? We did not hear it.

Senator BARKLEY. The motion is that the hearings conclude when the committee concludes its hearings on Monday.

Senator KEAN. How many more have we to hear?

The CHAIRMAN. We have about four or five for Monday. We have no more now.

Senator WALCOTT. Mr. Chairman, there are so many suggestions today as to one or two very important amendments to this bill that it seems to me, in view of the value of a bill of this sort and the importance of it, it is a great deal better to thrash it out in committee rather than on the floor of the Senate.

The CHAIRMAN. We will take up consideration of the bill, Senator, after we get through with the hearing. We will finish the hearings and then we will take up the bill and all amendments that may be offered.

Senator GLASS. I think we just as well finish Monday.

Senator WALCOTT. On the hearings, yes.

Senator BARKLEY. That is all my motion was for.

Senator WALCOTT. Oh, I thought you meant final consideration.

The CHAIRMAN. I will give notice that we will have no hearings after Monday. The committee will recess, then, until 10:30 Monday morning.

(Accordingly, at 4:25 o'clock p.m., the committee adjourned until 10:30 o'clock on the following Monday morning.)

(The additional data submitted by Mr. Eisler is here printed in full as follows:)

THE CASE AGAINST THE GOLD STANDARD

I. WORLD PRODUCTION AND CONSUMPTION OF COMMODITIES

(By Dr. Robert Eisler)

A most remarkable cyclical fluctuation of gold prices between 1850 and 1912 has been noticed by economists ever since the latter year and variously used to illustrate the influence of supply and demand on the exchange value of gold.

If the data of Sauerbeck's commodity price level for these years are plotted the resulting curve (fig. 1) shows a series of short-term fluctuations, but also very clearly an underlying single, roughly symmetrical long-term up-and-down wave overlaid, as it were, by the ripples of the short oscillations. The horizontal line representing the arithmetic mean between the peak and the trough of the wave is crossed in 1852, 1881, and 1912. Diagrams published by Mr. Bowie, of the Industrial Institute, in 1932 show how closely the long-term fluctuation approximates to certain mathematically defined curves (sinusoid, cubic, and log parabola), the maximum deviation of the short movement extending to about 6 percent above and 6 percent below the trend of the long fluctuation.

A similar long wave is easily seen if the annual increase of the world's actual monetary stock gold is plotted in the same way as the rise and fall of wholesale

prices (fig. 1). The striking parallelism of the two curves has been explained by Prof. Gustav Cassel (1923), whose thesis has been further elaborated by the late Mr. Joseph Kitchin and by Sir Henry Strakosch (1929) in the following way: Commodity prices were at the same level in 1850 and in 1910, and equally so in 1881-82, at the point of intersection of the "long wave" and the "arithmetic mean line", because in this period the world's stock of gold increased at an average rate of 3 percent per annum, while—according to the best available statistics established without any reference to the problem of gold and the price level—the world's production has increased at the same rough average of 3 percent all through the nineteenth and the twentieth century. The "long wave" of prices is seen rising above the "level" line as long as the annual increase of the world's stock of gold was greater than the "normal" 3 percent rate, and it is seen falling below the "level" line as long as the annual addition to the gold stock of the world was below this "normal" figure. A curve representing the relation of the actual to the "normal" annual gold supply, called the "curve of relative gold", coincides in a remarkable way with the "long wave" line of prices. Mr. Kitchin and Sir Henry Strakosch have shown that the coincidence of the two curves is even more striking if the "curve of relative gold" is made to represent the increase not of the world's total stocks of gold but the net addition to gold used for monetary purposes—i.e., annual gold production minus gold absorption into sterile hoards and industrial consumptions.

A "LONG-WAVE" EXPLANATION

It seems extremely plausible that if the world's monetary stocks of gold had been constantly increased by about 3 percent per annum all through this period the short-term fluctuations would have oscillated around a straight line and not around the sinusoid or cubic parabola of the "long wave" in other terms, that the "long wave" of prices is nothing but a slow average variation of the exchange value of gold, due to the gradual changes in the supply of the monetary standard metal.

Two important practical conclusions have been drawn from this interpretation of past statistical experience by Professor Cassel, Mr. Kitchin, and Sir Henry Strakosch, and accepted by Sir Reginald Mant in his report to the Gold Delegation of the League of Nations Financial Committee. They have been popularized in France, notably by M. Georges Boris—first, that a net addition of about 3 percent to the world's monetary stocks of gold would have to be forthcoming if the world's gold price level is to be maintained stable in the future, and, secondly, that the catastrophic fall of wholesale prices after 1929 is due to a deficient gold production and a deficient utilization for monetary purposes—a so-called "sterilization" (Sir Josiah Stamp) of the available gold—by certain central banks.

Against this so-called "gold scarcity theory" a number of serious objections have been raised by Mr. G. R. Hawtrey in a discussion of a paper read by the late Mr. Kitchin at Chatham House in February 1930. According to Mr. Hawtrey, Mr. Kitchin's graph "shows" nothing but "that the net result of all the different forces other than the gold output was to cancel each other out"—more or less exactly. "The quite abnormal demand for gold due to the putting of so many countries on the gold standard having been offset by the equally abnormal development of credit substitutes", it seemed to Mr. Hawtrey that the "normal" 3.1 percent per annum increase of monetary gold "is actually based on no evidence whatever." "Not knowing how far conditions either as to economic expansion or as to credit substitutes or as to the habits of the people in regard to the amount of currency and bank money they will hold in the future will correspond to the past", we are, according to Mr. Hawtrey, "completely left in the dark so far as statistical guidance is concerned."

This most disappointing result seemed to be confirmed when Mr. Bowie, on January 19, 1932, put before the Royal Statistical Society his mathematical analysis of the close parallelism between the curves of the price movement and the increase of monetary gold stocks, and Mr. Udny Yule rose to point out the fact that very close correlations of various time series over a relatively short sample period may be entirely fortuitous. As an amusing example of such "non-sense correlations" Mr. Yule quoted the paradoxically striking correlation (0.951—i.e., quite near to unity) between the standardized mortality per thousand persons in England and Wales and the proportion of Church of England weddings per thousand of all marriages.

Independently from Messrs. Hawtrey and Yule Professor Ernst Wagemann, director of the German Imperial statistical office, has closely studied the problem

of the gold supply and the price level. Starting from the fact that the gold-mining output is itself dependent upon the production costs of gold—that is to say, on the movements of the price level (see fig. 2), since a fall of prices permits to treat poorer ores and to sink deeper shafts, while a rise of prices renders marginal mines unprofitable—Dr. Wagemann concludes that the close correlation between the movements of the price level and the per annum additions to the world's monetary stocks of gold must be due to some unknown factor influencing both curves.

My readers will probably admit that this seems like carrying legitimate skepticism a little too far, and that it would need a lot of proof to convince either an expert adherent of the quantity theory of money or a practical business man brought up under the influence of that simple view that the obvious correlation between the supply of gold and the level of gold prices is a "nonsense correlation", due to the influence of a mysterious cause acting on both curves. Most obviously the advocates of the gold standard cannot have it both ways; either gold reserves tend to limit the fluctuations of the price level, then the correspondence between the movements of prices and "relative gold" cannot be fortuitous "nonsense correlations", or, if they are and there is no correlation between prices and gold reserves, why insist at all on having gold reserves as a safeguard of monetary stability?

"What is the justification," said Mr. Udny Yule, "of assuming a constant percentage rate of increase in requirements for monetary gold?" Most certainly the reference of Professor Cassel and his followers to the fact that according to good statistical evidence the world's production increases at an average of 3 percent per annum, while population increases at an average of 1 percent per annum does not warrant the conclusion that a 3 percent average per annum increase of gold is necessary for the purpose of exchanging the increased annual produce of civilized humanity at a constant price level.

TRADE VOLUME AND GOLD

Obviously any quantity of goods and services can be exchanged by means of a given quantity of gold without depressing the price level if the circuit velocity of money is speeded up to the proper extent. How often have the advocates of the gold-scarcity theory been reminded of the fact that transactions to the amount of £40,000,000,000 were cleared in London at a time when the gold reserve of the bank was less than £150,000,000? On the face of it, a certain average annual increase of the world's trade volume does not seem to call necessarily for a proportional increase of gold currency as long as there are other means of payment. As Mr. Hawtrey pointed out in the course of the Chatham House discussion, everything depends first of all on the growth of the note issue in relation to gold reserves, not to speak of the proportion between the note issue and deposits subject to transfer by means of checks. However plausible Professor Cassel's, Mr. Kitchin's, and Sir Henry Strakosch's basic assumption may seem at first sight, it is certainly far from self-evident.

This is, however, by no means the only problem left unsolved, nay, unnoticed, by Professor Cassel's apparently convincing and, in spite of these fundamental difficulties, essentially correct reasoning. Nobody has, as far as I know, ever attempted to explain the unquestionable fact that the volume of the world's production and consumption increases at an average rate of not more than about 3 percent per annum. This rate of economic progress is certainly no more "natural" in our modern age of power production than the 1 percent per annum increase of population is due to a "natural" or "physical" limit of human fertility. Even as it would be biologically possible—however impossible it might prove economically and socially—for each couple to have a child every 10 months for 20 years of their lives, the productivity of labor, aided by machinery, could certainly increase production in this age of cumulative, technical progress at an incomparably more rapid rate than this paltry 3 or—in the United States—4 percent per annum. In an age capable of harnessing a constantly increasing part of the endless flow of cosmic energy to the service of our needs, and of thus producing a constantly increasing quantity of raw materials and finished products, above all, in an age which has always had a large surplus of unemployed labor—the figures oscillating between 2 percent and 12 percent, from 1850 to 1912—it is inconceivable to accept this 3 percent as the maximum potential increase of production.

THE 3 PERCENT INCREASE

Just as there is no physical obstacle to a much more rapid increase in population, one cannot imagine any physical obstacle keeping the per annum increase of production within such narrow limits. In the same way as the increase of population is kept within narrow bounds by the limited purchase power of the masses, the theory of the price level being in the long run tied to the line of "relative gold" would simply imply that nothing but the limited per annum increase of the world's purchase power possible under the gold standard system has reduced the annual increase of production to the low figure of something like 3 percent all through the nineteenth and twentieth century. If it is true that an average 3 percent per annum increase of monetary gold is required for keeping the wholesale price level stable and for avoiding a price fall wiping out profits and overburdening industry with debts contracted in terms of gold, it must be equally true that any speeding up of the world's production of all good things above the 3 percent per annum line determined by the average speed of gold production, any attempt freely to produce as much as the technical efficiency of available labor and plant would permit, must lead to an "overproduction" of consumable commodities relative to the gold currency world's purchase power.

If this is true, the slow and spasmodic production of gold—chosen as the standard commodity because of its rarity, because its production cannot be speeded up ad lib—must be the metronome, beating time to the march of economic progress, the "invisible obstacle" to our enjoying the potential plenty of wealth, the exasperating drag limiting—in spite of every attempt to expand credit and "economise gold" by using fiduciary currency—the increase of production of all other much more easily multipliable goods to the low average speed of 3 percent per annum.

If this indictment of the gold standard can be substantiated, the reader will easily see for himself that it is not capitalism but a thoroughly antiquated monetary system which should be made responsible for the greatest curse of our time—the persistence of wretched, squalid poverty in an age of potential plenty surpassing the wildest flights of Utopian imagination, and that—according to the unforgettable slogan of the late vice-President of the United States, William Jennings Bryan—mankind has really been "crucified on a cross of gold."

(Illustrations not printed at this time.)

DRAFT MATERIAL RESPECTFULLY SUBMITTED BY DR. ROBERT EISLER, OF VIENNA AND PARIS, CONCERNING AN AMENDMENT INTENDED TO BE PROPOSED BY DR. EISLER, OF AUSTRIA, TO THE BILL (H.R. 3835) TO RELIEVE THE EXISTING NATIONAL ECONOMIC EMERGENCY BY INCREASING AGRICULTURAL PURCHASE-POWER

On page 24, section 43 (C) after the word "private", line 29, insert the words "to the amount of their purchase power on the day of payment", the said purchase power to be defined as the face value of the note or coin divided by the scientifically constructed cost-of-living index number of the day of payment.

At the end of section 44, insert "especially concerning the construction and calculation of the cost-of-living index by which the purchase power of the United States currency is henceforward to be determined."

MOTIVES FOR PROPOSING THIS AMENDMENT AND EXPLANATION OF THE CONSEQUENCES OF THE PROPOSED LEGISLATION

Under the Thomas amendment of April 1933, wide discretionary powers of monetary expansion were given to the President. Three billion dollars could have been added to the cash reserves of the banks by open market operations of the Federal Reserve banks, three billion more by direct issue of United States notes; by a 50-cent devaluation of the dollar in terms of gold the available gold reserve of \$3,597,000,000 could have been doubled in terms of devaluated dollars. This would have made possible an issue of \$9,000,000,000 additional Federal Reserve notes, backed by 40 percent of gold. Not counting any issue of silver certificates permissible under section 45 of the bill, 15 billion of currency could have been added at the bottom of the pyramid of credit, adding roughly 150 billions to the potential amount of circulating credit. These possibilities

have hitherto in no way been utilized, the actual monetary circulation being indeed smaller than it was at the beginning of the new administration.

It is common knowledge that any expansion of the monetary circulation sufficiently large to raise the national price level of the United States to the extent necessary for the purpose of relieving the intolerable indebtedness of the producer and of stimulating production to the extent necessary for the absorption of existing unemployment was and is violently and obstinately opposed by all those who stand to lose by the rising cost of living, consequent upon and inseparable from a rise of the wholesale price level.

This resistance is perfectly legitimate. It is indeed evident that a rise of retail prices of consumable goods prevents all those entitled to contractual incomes fixed in terms of money—that is to say, all rentiers, pensioners, annuitants, civil servants, wage and salary earners, etc.—from consuming the amount of goods and services which they were in the habit of buying, let alone any part of the additional produce resulting from an increase of production stimulated by rising prices. Since a rise of the retail price level forces all owners of contractual incomes fixed in terms of money to lower their standards of living, it is obvious that the raising of the standard of life of the unemployed, reconverted into wage and salary earners by production stimulated through a rise of prices, would be obtained at the expense of those actually employed and of the rentier, landlord, owners of savings deposits, insurance policies, etc. Not only is a monetary policy designed to help the producer by raising the wholesale price level without compensating the consumer for the resulting loss of purchase power a process of “robbing Peter to pay Paul” but it is also an expedient which in the long run must defeat its own end, since the goods which the consumers are more and more unable to buy must, of course, accumulate on the shelves of the retailers and in the warehouses of wholesalers and producers until the pressure of these ever-growing unsaleable stocks forces all traders to sell them at any cost, and a new crisis results through the inevitable collapse of the raised price level.

These untoward results of ordinary inflation or devaluation of currency achieved by any one of the methods outlined in section 43 of the law, which we propose to amend—can be entirely avoided by the proposed new amendment designed to insure.

COMPENSATED REFLATION

If the circulating currency of the United States of America is declared “legal tender to the amount of its purchase power on the day of payment” the consumer and the owner of contractual claims in terms of money are fully protected against and compensated for all loss of purchase power consequent upon the depreciation of the monetary unit, and new purchase power can be given to the unemployed and to the agricultural as well as to the industrial enterpriser without taking away any part of their actual purchase power and consuming capacity from other classes.

A real addition can be made to the total purchase power of the community instead of a mere transfer of existing purchase power from one section of the people to another.

CONSEQUENCES OF THE PROPOSED LEGISLATION

Under the actual monetary system the execution of each contract in terms of money leads to an inevitable amount of fraud. If prices have risen, the debtor defrauds the creditor by repaying in depreciated currency. He receives a premium for borrowing instead of paying the agreed rate of interest. Conversely, when prices have fallen the creditor becomes unwittingly and unwillingly a usurer exacting payment of capital and interest in appreciated currency, thereby receiving an exaggerated rate of interest and ruining the debtor.

Under the proposed legislation all this hitherto legalized iniquity would be ended. A depositor having deposited \$100 in a bank when the index was 100 can at present be repaid in depreciated currency as soon as the cost-of-living index has risen, say, to \$110. Conversely, a client who has borrowed \$100 from the bank when the index was 100 and who has manufactured with this money a commodity which he can now sell at an increased price level, is now allowed to repay the bank in depreciated currency; he may have agreed to pay 6 percent interest for a year and may have made a 9-percent profit in 1 month by repaying the loan in depreciated currency.

Under the proposed law the payee is automatically compensated for loss consequent upon any depreciation of the currency unit. The bank must pay 110 cents in currency for \$1 deposited when the index was 100, as soon as the index has

risen to 110. (If the depositor is paid by means of a check on another bank the check will of course be made out for "\$1 only", since the obligation to pay out 110 cents is thereby merely transferred to another bank and no final payment in legal tender is effected.) Conversely, the borrower of \$1 will have to repay the loan either by means of a \$1 check on another bank or by handing in 110 cents, since a dollar note or coins to the face value of \$1 are legal tender only to the amount of 91 cents when the cost-of-living index has risen to 100.

As to the banks' cash reserves, they will have to be protected against depreciation by being converted into a balance with the Federal Reserve banks every Saturday noon, and before the index may be changed over Sunday, by handing them over, on the premises of the bank itself, into the custody of a sworn Federal Reserve agent, who will lock them up over the Sunday. The resulting balance will then enable the member bank on Monday exactly to that amount of cash necessary to carry on business on the new price-level.

A 1-dollar deposit—1 dollar of stable or "compensated bank money"—will thus always buy the same amount of consumable goods and services which it bought when the index was 100. Such a compensated dollar will be "the dollar which will buy in another generation what it bought in this generation" announced in the President's epoch-making message to the London International Monetary Conference of 1932.

This "compensated dollar" will moreover free the employer from the constant demand for a raise in wages whenever the cost of living rises to a new level. Actually an unskilled laborer receiving a \$15-weekly wage asks his employer for a 10-percent raise, i.e., for \$16.50 as soon as the cost of living has risen from 100 to 110. Under the new legislation the employer will draw a wage check for \$15 and either he or the laborer employed will get \$16.50 currency from the bank against this check as soon as the index has risen to 110. The employer's wages bill will be stabilized, the increase corresponding to a rising cost-of-living being provided by the authority which is the source and fountain of fiduciary issue, the monetary policy of which has necessitated the compensation in question.

In this way the necessary rise of the wholesale price level can be achieved while all consumers' nominal or money incomes are increased in direct proportion to rising retail prices.

The objection that this legislation would stabilize the actual disproportion between the prices of produce and the producers' indebtedness can easily be refuted. Since it is common knowledge that the movement of retail prices lags—for obvious reasons—considerably behind the movement of wholesale prices, a compensation of the creditor for the slower and less considerable rise of retail prices will by no means annihilate the whole, but only part of the profit which the producer derives from the rise of wholesale prices, as can easily be demonstrated by means of the appended graph, showing how the increase of wholesale prices in compensated bank money compares with the nominal rise of prices in terms of depreciating currency.

(Illustration not printed at this time.)

The diagram shows—by means of curves illustrating the movement of American prices from 1916-21—that the cost-of-living figures follow the movement of wholesale prices with a considerable time lag and that retail prices, because of the large amount of "fixed" costs to be borne by the retailer, do not either rise or fall as far as wholesale prices.

If we want to know the gradual depreciation of current money in terms of the retail prices of consumers' goods, in other words the diminution in the purchase-power of consumers' money, we have only to invert the curve representing the cost of living. The resulting "reflection" of the rising cost-of-living index curve in the "mirror" below the horizontal coordinate (representing time) will directly show us how many "cents" the United States dollar of current money was worth at any date from 1914-23. While the cost-of-living curve shows how many cents of current money had to be added to hundred cents credit or at any date in order to buy a "1914 dollar's worth" of various consumable goods, the inverted curve shows how much smaller the parcel of various commodities obtainable for a dollar in 1914 became from day to day in the following years.

The curve representing the depreciation of the consumers' dollar shows immediately that the consumer is able to buy less and less of the goods produced, his purchases being represented by the shorter and shorter vertical lines reaching from the bottom of the graph into the dotted dollar depreciation curve.

The longer and longer vertical lines reaching from the depreciation curve up to the dotted 100-100 level are the measure of the gradually accumulating unsalable stocks, which can only be sold if the consumer is compensated by an equivalent amount of cents added to each dollar of his income.

The double-line curve showing wholesale prices in terms of currency can be transformed into the black line showing wholesale prices in "compensated" dollars of bank-money by deducting from the height of each point in the double-line curve the height of the corresponding point in the cost-of-living curve. If it needs 110 cents currency deposited in a bank to be credited with one dollar as soon as the cost-of-living index has risen to 110, it is obvious that, e.g., a wholesale price of 150\$ currency for a commodity will only mean a $150 \div 110 = 136.36$ dollar price in compensated bank-money.

It is easy to see that wholesale prices do rise all through inflation, not only in currency but equally, although less rapidly, in compensated bank-money.

The fact that wholesale prices rise in "bank-" or "contract-money" means that a farmer's or a manufacturer's indebtedness—his liabilities corresponding to public debt (=taxes) as well as his liabilities based on private indebtedness (=rent and interest on borrowed capital)—are diminished in relation to the value of the goods which he produces and sells. The present impossible situation in which more and more producers, overburdened by the claims of the Government and by the claims of creditors, unwittingly and unwillingly turned into usurers, are forced out of business is automatically righted; enterprise becomes profitable again because overtaxation and overindebtedness are readjusted in a smooth and equitable way.

This sounds "too good to be true." Our diffident farmers and industrialists will ask where this welcome bounty is to come from. Must not somebody lose what they stand to gain? Would not the Nation and therefore they as citizens lose, if they, in their capacity of producers, were relieved by monetary depreciation from overtaxation—even if the monetary depreciation be (partly) compensated by a mathematical device which strikes them as akin to a conjurer's tricks? Would not the creditor lose what the debtor stands to gain by rising bank-money prices? And is not the producer a creditor in relation to other producers or to wholesalers buying his goods? Would he not lose as much as he gains?

Fortunately, the situation can be made quite clear to the debtor as well as to the creditor, to the entrepreneur as well as to the rentier, to the employer as well as to the employee. Most obviously somebody must surrender what somebody else is to receive. But in the proposed system the creditor is completely protected against loss in his capacity of consumer. If he has bought bonds or war loan in order to buy whatever he needs, whenever he needs it, and to employ as much labor as will be necessary in order to preserve his standard of life, he cannot lose through the adjustment proposed, because every dollar of his claim on a bank, on the government or on a producer will buy as much consumable goods and services as before.

The creditor loses, however, in the capacity of the man who wants eventually to reinvest his savings in shares or to start a business himself. If he has bought Government bonds because he has temporarily retired from business in order to lie low "until something worth while turns up", he will find that, as soon as prices rise and business is restarted, his securities will fall relatively to other people's shares. But this is as it should be. We want industry to prosper and an incentive to be offered to enterprise employing labor. Most emphatically we do not want the idler, suphemistically called "the passive agent of production", to be favored at the expense of the risk-taking producer. Nobody in his senses desires to perpetuate the state of affairs in which a prudent rentier or, still worse, a panic-stricken hoarder can buy a well-equipped factory for what it normally earns in 1 or 2 years. It is the depreciation of our industrial assets that we want to remedy.

It is as stupid to forget that the producer enables the consumer to consume as it is foolish to lose sight of the fact that the consumer enables the producer to continue production. The mere consumer, or the creditor qua consumer, has a claim to a fixed amount of consumers' goods. His consols or bonds are not claims to a fixed amount of producers' goods, because they are not industrial stocks and shares. If he has acquired consols as a means of acquiring industrial shares or stocks of commodities later on, he is not merely a bona fide creditor and rentier, but also a "bear" speculator and must take the rough with the smooth. He is not to be pitied, moreover, because, with a little more intelligence than the other "bears" in the pack can muster, he can sell his consols or war loan to investors shunning risk and wanting to retire from business, before the "bulls" awake to the new situation, and thus "get in at the bottom" of the rise.

The essential point is that the consumers' capacity to consume should be maintained in order to balance existing producing capacity. The community is not interested in maintaining anybody's capacity to add a new important item to the actually redundant producing plant.

DIFFERENCE BETWEEN A DOLLAR OF VARYING WEIGHT IN GOLD, CALLED A "COMMODITY DOLLAR" OR A "COMPENSATED DOLLAR", SUCH AS ADVOCATED BY PROF. IRVING FISHER, AND A STABLE "DOLLAR OF BANK, OR CONTRACT MONEY", ENTITLING THE HOLDER TO A VARIABLE AMOUNT OF CENTS, I.E., CURRENT MONEY (BANKNOTES OR DIVISIONARY COIN), AS DESCRIBED BY DR. ROBERT EISLER

The proposal of Professor Fisher, which, according to a recent statement, he would be very willing to abandon in favor of Dr. Eisler's plan, if the latter proved to be more acceptable to Congress and the President, provides a dollar, the weight of which is diminished when wholesale prices fall and is increased when wholesale prices rise, so as to keep wholesale prices moderately stable.

This would mean that a given weight of gold, e.g., an ounce, is legal tender for a debt defined as \$1 worth of goods included in an index of wholesale prices to the amount of the purchase power of gold at the time of payment. If the purchase power of gold increases the creditor can only exact proportionately less gold. If the purchase power of gold falls, he can exact a greater weight of it than at the time the debt was contracted.

This dollar of variable weight will, as Professor Fisher freely admits, not keep prices absolutely stable, but only tend toward moderating short-term fluctuations and toward eliminating long-term rises or falls of prices.

In his book *Stabilizing the Dollar*, Professor Fisher himself gives a chart showing the considerable fluctuations of the price level which could and would occur under his system. These fluctuations would always inflict a certain amount of damage on the creditor class, including the wage and salary earners, when prices rise, on the debtor class, i.e., especially the enterpriser, farmer, or manufacturer producing goods with money borrowed from banks, when prices fall.

This injustice would be negligible and anyhow smaller than the iniquities of the old gold-standard system if the price level from which the new compensation system started were a level of equilibrium between prices and debts. But since Professor Fisher admits that the actual distress price level must be raised by devaluation and inflation of the currency, devaluation alone cannot make production profitable and debts payable. The "commodity dollar" of variable gold weight primarily designed to placate the enemies of an inconvertible paper money, does not in any way hold out to the creditor class any guarantee of compensation for the losses which they would suffer through devaluation of the monetary unit and the inflation of the circulating volume of currency.

The deflation problem is not solved by the Warren-Fisher "commodity dollar." This dollar is not a "compensated" dollar during all the time that the currency is managed for the purpose of raising prices.

This is well known to Professors Warren and Fisher. Professor Warren admits (p. 165 of his book *Gold and Prices*) that the said dollar would not eliminate business cycles. In other words, there would be periodical crises under the variable weight gold-dollar standard, just as under the old gold-standard system.

The conclusion is: The monetary unit must be completely divorced from gold, then the currency can be managed in such a way as to avoid crises altogether.

Dr. Eisler's "compensated dollar of bank money" changes not the gold weight into which the dollar is convertible under the law, but disregards the amount of gold which may be had in the free gold market for \$1.

On the contrary, it provides by making a dollar a bank, deposit or contract money—a purely ideal money of account—convertible into a variable amount of cents of currency (coins or bank notes) a guarantee that all contractual income stipulated in terms of such money will always be increased in due proportion to rising retail prices, whenever wholesale prices are raised by an expansion of credit-money. Such a "compensated dollar" represents indeed a constant quantity of consumable goods, bought and sold in the retail trade; but it does not achieve this aim by legally identifying the monetary unit with a variable amount of gold, but with a variable amount of currency (paper and token coins) declared legal tender to the amount of its purchase power.

Neither Professor Fisher nor Professor Warren have ever claimed that their "commodity-dollar" system could effect a total absorption of existing unemployment. Dr. Eisler claims to be able to prove that his method of "compensated

reflation" would totally absorb existing unemployment, assure to enterprise the maximum profit consequent upon peak-load production and to labor the maximum wages which the worker can command when every new entrepreneur has to induce an employed worker to abandon his job for a new one.

Add at the end of section 43:

3. In case the Government of the United States enters into an agreement with any government or governments under the terms of which the rate of exchange between the United States unit of bank money and that of any other nation is stabilized by international contract, on the basis of the purchase-power equation prevailing at the time of the ratification of that contract and on the basis of an agreement stipulating a parallel budgetary and monetary policy designed to raise the national price levels to the figure which would insure the absorption of existing unemployment, but without regard to the value of the said monetary units in terms of gold, the President is authorized by proclamation to fix in terms of the said unit of United States bank money the price of an ounce of fine gold and of an ounce of fine silver at which the United States Treasury will henceforward buy any amount of the two precious metals offered to it against United States 3 month's Treasury bills; provided that under the terms of the said international contract the treasury or central bank of the nation or nations entering into the said agreement undertake to buy gold and silver at an equivalent price in terms of their own national bank-money unit.

The United States Treasury is further authorized to exchange with the treasury or treasuries of the nation or nations entering into such an agreement regularly renewable 3 months' Treasury bills equivalent to the money value of 1 year's trade between the nations concerned for the purpose of keeping the exchanges between the monetary units of the United States and the respective nation or nations stable by selling such Treasury bills on the money market of the issuing nation whenever there is an excess demand of the one of the two moneys to be stabilized in terms of each other.

IF CONGRESS SHOULD DESIRE TO REPLACE H.R. 3835, SECTIONS 42-44 BY NEW MANDATORY LEGISLATION THE FOLLOWING DRAFT IS RESPECTFULLY SUBMITTED TO THE CONSIDERATION OF THE CONGRESS COMMITTEES ON BANKING AND CURRENCY

A bill to provide an American money of account and contract of stable purchase power protecting the creditor as well as the debtor against loss consequent upon inflation or deflation of the currency of the United States and American labor against unemployment caused by monetary instability.

Be it enacted, etc., That henceforth it shall be the primary object of the monetary policy of the United States to provide a monetary unit of substantially stable purchase power in terms of retail prices of consumable goods and services essential for the maintenance of the average citizen's standard of life, to be used as money of account in all contracts stipulating payment in terms of American legal tender money.

Sec. 2. The legal fiction, hitherto commonly accepted as the basis for all judicial interpretation of such contracts that circulating money proper, to wit: The United States dollar defined as a fixed weight of gold of standard fineness, let alone the silver dollar or a dollar of inconvertible paper money, as a stable measure of the exchange value of goods and services is hereby expressly declared as contrary to the facts, a constant source of legalized fraud and iniquity in the relations between debtor and creditor, whenever there is, in consequence of various causes, an inflation or deflation of the currency and, therefore, wholly inadmissible in court.

Sec. 3. All previous legislation whatsoever, as far as it is based on the legal fiction that the unit of United States currency has or can ever have a stable purchase power, is hereby declared void and null.

Sec. 4. All notes and all other coins and currencies heretofore or hereafter coined or issued by or under the authority of the United States shall be legal tender for all debts, public and private, to the extent of their actual purchase power on the day of payment.

Sec. 5. (a) Half and quarter cents shall be coined in quantities to be determined by the Director of the United States Mint.

(b) The actual 5- and 10-cent coins shall be replaced by a new coinage of such weight and shape that it cannot be used any more in slot machines operated by the actual nickel and silver coins.

(c) The present nickel coins shall be sold at their face value for use as subway-token coins and similar purposes to the owners of slot machines to avoid imposing the cost of altering such machinery on these concerns.

SEC. 6. The present dollar notes shall be gradually withdrawn and replaced by new ones bearing the following text:

"This note, equivalent on the day of the ratification of the act of Congress ——— of the ——— of 1934, to one dollar, United States bank and contract money of account is legal tender to the extent of its actual purchase power on the day of payment. The figure determining the value of this note in terms of United States bank money is obtained by dividing its face value by the last cost-of-living-index figure proclaimed before the day of payment."

SEC. 7. The term "actual purchase-power on the day of payment" is hereby defined as the figures obtained by dividing the face value of the note or coin by the last cost-of-living index figure legally proclaimed by the Secretary of the Treasury before the day of payment.

SEC. 8. The cost-of-living index determining the purchase-power of the United States currency shall be calculated and proclaimed as often as necessary, at least each Sunday in time to be published together with convenient "ready reckoner" tables in the Monday morning papers.

SEC. 9. This cost-of-living index shall be calculated by the United States Bureau of Labor Statistics on the basis of the average retail price of the commodities and services constituting the real incomes of citizens paying the income-tax but exempt from supertaxation. It must include the cost of rented houseroom, of local public transport, and the cost of public services, as expressed by taxes and rates.

SEC. 10. The proper weighting of the different items included in this index, as well as the periodical inclusion of new and the exclusion of obsolete items, shall be determined by a committee of experts nominated by the Secretary of the Treasury.

SEC. 11. The purchase power of the unit of United States bank money in terms of wholesale prices of commodities entering into international trade shall be regulated by the credit policy of the Federal Reserve Bank System in such a way that unemployment existing in the United States shall be as fully as possible re-absorbed.

SEC. 12. The Federal Reserve System is obliged to finance Government expenditure for public works, tax remittances, refinancing farm and house loans, thawing out of frozen bank deposits, etc., by discounting or buying Treasury bills until the resulting rise of the wholesale price level results in absorbing existing unemployment.

SEC. 13. As soon as it appears that the rise of wholesale prices does not result in any increase of employment, or of the physical volume of production, the wholesale price level, especially of goods entering into international trade, shall be stabilized and maintained reasonably stable in terms of United States bank money by the usual methods of central banking policy—i.e. raising the discount rate and selling the securities previously bought from the Government or on the open market—until prices cease to rise and begin to fall, and lowering the discount rate and buying securities as soon as prices show a tendency to fall.

SEC. 14. The credit policy of the Federal Reserve banks shall be wholly determined with regard to maintaining the price level of goods produced by United States labor at the optimal level, insuring maximum employment of available labor and plant.

SEC. 15. For the purpose defined in section 14, the monetary circulation of the United States is to be expanded year after year as nearly as possible to the extent of which the potential maximum productivity of labor per head and per unit of time has increased during the period in question.

SEC. 16. Statistical experience having shown that under such conditions the wholesale price level will tend to be stable, a slightly rising wholesale price level, not more than roughly 1 percent for a year, shall not be checked by monetary measures.

SEC. 17. The maximum potential output per head and per unit of time will be ascertained by imposing on every producer the obligation to state in weekly, monthly, or yearly returns the actual and the maximum potential amount of output, the actual and the potential maximum number of workers employed over the period in question. The Federal Reserve Board will regularly publish efficiency-of-labor, employment, and physical volume of output indices and steer its credit policy with due regard to the efficiency-of-labor and the wholesale-price indices.

SEC. 18. The stability of the exchanges between the dollar and foreign currencies will be maintained by an arrangement of mutual credits, taking the shape of special issues of regularly renewable 3-month Treasury bills of the governments concerned, such Treasury bills to be issued by the one and accepted by the other of the two nations contracting to keep the exchange of their currencies stable and to be sold and bought on the national money markets according to the needs of the exchange market influenced by movements of capital between the various countries.

SEC. 19. The sales and purchases of these binational government securities shall be managed in such a way that the United States shall be capable to absorb, in the shape of long-term securities in terms of stabilized currencies, the maximum payments accruing under the existing and future obligations of the various debtor nations.

SEC. 20. The United States Treasury is authorized to buy any amount of gold and silver offered to it at a minimum price per ounce, the said minimum price to be the price of gold and silver paid on the free world market on the day of the ratification of an agreement to stabilize the exchanges between the dollar, the pound sterling and other currencies "off gold" by means of the procedure defined in section 18, provided that the said agreement contains a clause obliging the other central banks in question to buy the two precious metals at a corresponding price.

SEC. 21. No obligation to sell gold at a fixed price shall ever be reimposed either on the Treasury or the Federal Reserve System of the United States.

THE GOLD RESERVE ACT OF 1934

MONDAY, JANUARY 22, 1934

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10:30 a.m., pursuant to adjournment on Saturday, January 20, 1934, in room no. 301 of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Glass, Wagner, Barkley, Bulkley, Gore, Byrnes, McAdoo, Adams, Goldsborough, Townsend, Walcott, Carey, Couzens, Steiwer, and Kean.

The CHAIRMAN. The committee will come to order, please. We have a number of people to hear today, and inasmuch as this is the last day of our hearings we will have to hurry along as fast as we can in order to get through.

We will begin this morning with Dr. Warren. Will you please state your name, address, and occupation or profession.

STATEMENT OF GEORGE F. WARREN, PROFESSOR OF AGRICULTURAL ECONOMICS, CORNELL UNIVERSITY

Mr. WARREN. My name is George F. Warren. I am professor of agricultural economics at Cornell University. I have worked for many years on price statistics.

Senator KEAN. Speak a little louder, Dr. Warren, so we can hear you down at this end of the table.

The CHAIRMAN. Dr. Warren, have you examined the bill we have under consideration?

Mr. WARREN. I have.

Senator BARKLEY. Mr. Chairman, is this loud speaker arrangement working today?

The CHAIRMAN. Yes; I so understand.

Senator WALCOTT. Mr. Chairman, let us get down to business, and I suggest that we get order. We cannot hear while pictures are being taken and all this talking is going on.

The CHAIRMAN. Order, please. Are you gentlemen through with the taking of pictures now? Let us proceed. Dr. Warren, the committee would like to have your views about the bill.

Senator COUZENS. Dr. Warren, are you in the Government service now?

Mr. WARREN. No.

The CHAIRMAN. You may proceed, Dr. Warren.

Mr. WARREN. As to the bill, I have no changes to propose. I have brought in some statistics and charts which I think might be useful to the committee.

The CHAIRMAN. Let us have order. We wish to proceed with the hearings.

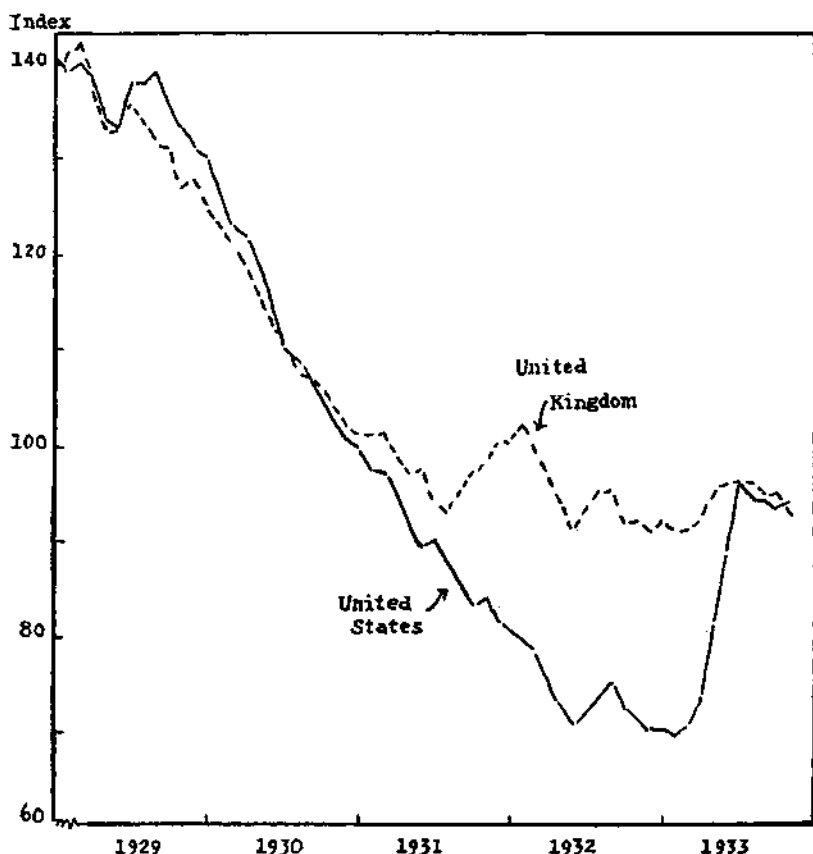


FIGURE 1. The Sauerbeck-Statist index number for England and a comparable index number for the United States, 1929-33.

1913=100. Prices in currency.

By suspending the gold standard and raising the price of gold in September 1931, England stopped the decline in prices. By raising the price of gold in 1933, prices in the United States were brought to the English level.

Mr. WARREN. Since it is so difficult to present figures orally, I have typed a few figures, which, if the members of the committee prefer to follow during my statement, may aid in understanding the data which I have to present.

(The tables of statistics are, as follows:)

TABLE 1.—Advance in prices from February to December

	England	New York		England	New York
	Percent	Percent		Percent	Percent
Gold.....	5	56	Copper.....	10	68
Cotton.....	6	68	Tallow.....	-7	50
Cottonseed oil.....	-29	26	Silver.....	11	67
Wheat.....	8	51			

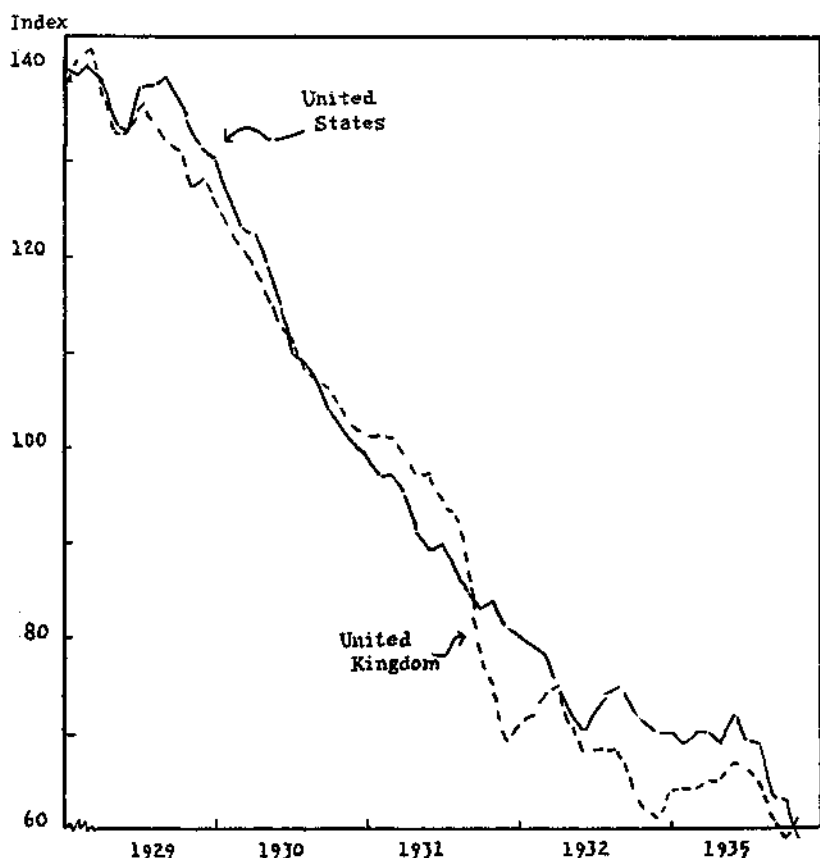


FIGURE 2. The Sauerbeck-Statist index number for England and a comparable index number for the United States, 1929-33.

1913=100. Prices in gold.

Index numbers of prices in gold have been nearly identical in the two countries. Prices in currency have differed about in proportion to differences in the price of gold.

TABLE 2.—The Sauerbeck-Statist index number for England and a comparable index number for the United States

1913=100	Prices in currency		Prices in gold	
	United Kingdom	United States	United Kingdom	United States
1925.....	160	154	160	154
1926.....	148	146	148	146
1927.....	144	139	144	139
1928.....	141	141	141	141
1929.....	135	136	135	136
1930.....	114	114	114	114
1931.....	98	90	91	90
1932.....	94	74	68	74
February 1933.....	91	69	64	69
November 1933.....	93	94	61	59

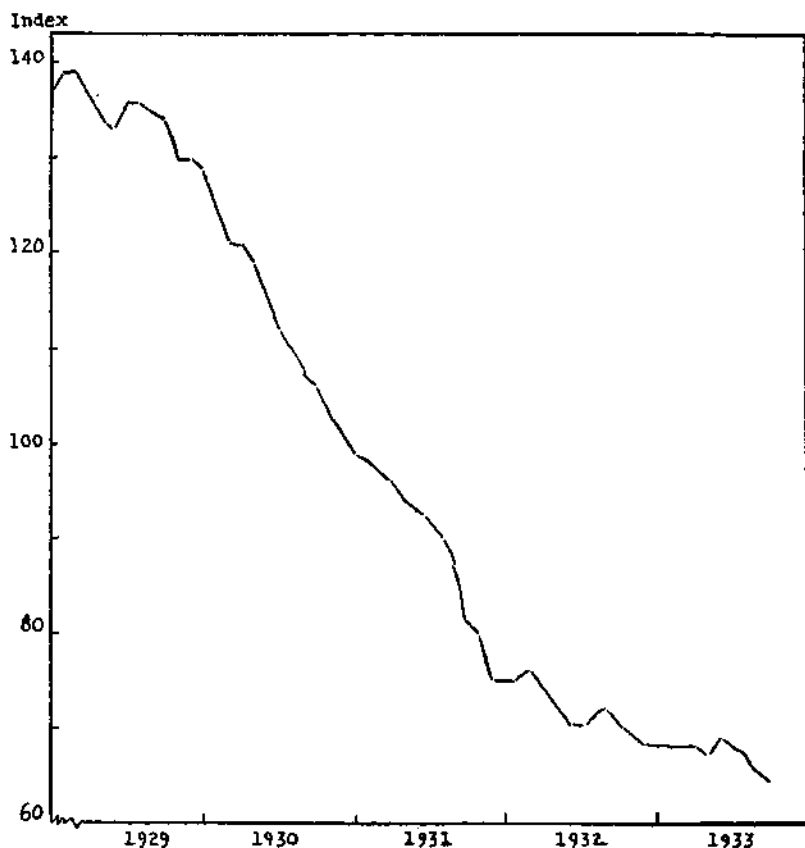


FIGURE 3. Prices of basic commodities in seven countries expressed in pre-war gold currencies, 1929-33.

Pre-war = 100.

Prices declined with great rapidity from 1929 to 1932. Since that time the decline has been less rapid.

TABLE 3.—Percentage advance in prices since February

	Gold, percent above par	25 in- dustrial stocks	30 basic commod- ities	United States Bureau Labor index	Prices paid to farmers ¹	Cost of living
March.....	0.2	5	3	1	2	-----
April.....	5	41	8	1	8	-----
May.....	18	64	23	5	27	-----
June.....	23	77	32	9	31	-----
July.....	40	60	47	16	55	-----
August.....	37	79	47	17	47	-----
September.....	48	67	45	18	43	-----
October.....	49	58	42	20	43	-----
November.....	60	74	44	20	45	-----
December.....	56	76	42	18	39	85

¹ Prices are for the 15th of the month.

² Preliminary.

³ Advance over June. In Massachusetts, the June index was 1 percent above February. Apparently the advance since February has been about 6 percent.

TABLE 4.—Wholesale prices of commodities in various countries for August 1933
(Pre-war=100)

	Base period	Number of commodities	Index number August 1933	Gold divisors August 1933	Prices in pre-war gold currencies August 1933
PRIMARILY, BASIC-COMMODITY INDEX NUMBERS					
United Kingdom (Statist).....	1918	45	96	1.48	85
United States (Statist).....	1913	(1)	94	1.37	69
Netherlands.....	1913	48	73	1.00	73
LARGELY, BASIC-COMMODITY INDEX NUMBERS					
Australia.....	1910-14	92	134	1.86	72
New Zealand.....	1909-13	180	133	1.86	72
Belgium.....	1914	126	501	6.94	72
France.....	1913	120	397	4.92	81
Italy.....	1913	140	278	3.67	76
Denmark.....	1913	118	126	1.82	69
Sweden.....	1913	160	108	1.88	68
ALL-COMMODITY INDEX NUMBERS					
Germany.....	1913	400	94	1.00	94
Canada.....	1913	502	108	1.45	74
United States.....	1910-14	784	102	1.37	74

¹ Table 2.

² July.

³ April.

TABLE 5

Total value of all listed stocks on New York Stock Exchange as reported in the New York Stock Exchange Bulletin:

Mar. 1, 1933.....	\$19,700,985,961
Jan. 1, 1934.....	33,094,751,244

Percentage increase, 68 percent.

All listed American securities—stocks and bonds:

Mar. 1, 1933.....	\$45,274,952,255
Jan. 1, 1934.....	61,166,027,745

Percentage increase, 35 percent.

According to the Federal Reserve Bulletin, the following advances in prices of stocks occurred from February to October:

	Percent
England.....	15
France, less than.....	1
Germany declined.....	4

TABLE 6.—Index numbers of the price of gold in various countries

[Par=100]

	United States	Canada	England	South Africa	Argentina	Sweden	Norway	Australia	New Zealand	Denmark	Japan
Month of December 1930.....	100	100	100	100	128	100	100	125	100	100	100
Month of October 1931.....	100	112	125	100	186	116	121	163	138	122	101
Month of October 1932.....	100	110	143	100	165	153	158	179	157	152	216
Apr. 18, 1933.....	103	122	142	142	170	148	153	178	177	176	239
July 18, 1933.....	146	151	146	146	167	157	160	183	183	180	240
September 16, 1933.....	149	154	154	153	164	184	168	193	192	190	268
October 20, 1933.....	141	146	152	151	167	162	166	189	189	187	258
Nov. 15, 1933.....	169	166	152	151	167	182	166	190	190	187	266
Dec. 16, 1933.....	157	156	149	148	169	159	163	186	186	183	252
Jan. 16, 1934.....	162	162	155	154	154	165	169	194	193	191	266

Free rate. Official rates were: December, 199; January, 193.

Senator BARKLEY. Mr. Chairman, I should like to ask a preliminary question.

The CHAIRMAN. Senator Barkley, you may proceed.

Senator BARKLEY. Professor Warren, it has been stated around here, more or less loosely, that you drew this bill, or that you sat in on its preparation. Is that correct?

Mr. WARREN. I did not draw the bill. I saw it before it was presented.

Senator BARKLEY. Who actually drew the bill, if you know?

Mr. WARREN. I don't know.

Senator GORE. Who had it when you saw it, if that is not confidential; and, of course, I do not want to ask that you make public anything that is confidential.

Mr. WARREN. I saw it in the Treasury Department.

The CHAIRMAN. I think the bill was drawn in the Treasury Department; is that so, Dr. Warren?

Mr. WARREN. I think so.

Senator BARKLEY. It is a composite bill, I suppose, worked out after conference among many people; is that so?

Mr. WARREN. I think so.

Senator BARKLEY. That hardly answers my question. Is it a composite bill worked out after conference among many people?

Mr. WARREN. Unquestionably it is.

Senator BARKLEY. There was no one man who drew it and who is responsible for it, as I understand. I merely want to get the record correct on that, because—

Mr. WARREN (interposing). Yes.

Senator BARKLEY (continuing). It was first stated that Dr. Tugwell drew the bill, and then it was stated that you drew the bill, or that somebody else drew it. I do not know that that is important—that is, as to who actually typed it, or who dictated it to a stenographer—but the bill is the composite product of those who conferred in regard to it, as I understand the situation.

Mr. WARREN. Yes.

Senator WALCOTT. That does not mean anything unless we know their names. Who was largely responsible for this bill?

Mr. WARREN. I should say the Treasury Department.

Senator WALCOTT. While you say you did not draw it, you admit that it agrees with your views.

Mr. WARREN. It agrees with my views, but I certainly did not draw the bill.

Senator WALCOTT. I do not mean the drafting of it, because that is merely drafting work.

Mr. WARREN. I did not do that. But I was consulted after the bill was drawn.

Senator WALCOTT. Did Dr. Tugwell have anything to do with it?

Mr. WARREN. Not to my knowledge.

Senator WALCOTT. Not at all?

Mr. WARREN. Not that I know of.

Senator McADOO. Wouldn't it simplify the question if you would just state to us who conferred with you about the drafting of this bill? I do not think there is any secret about it. I do not know anything about that, but if anyone wants to know about the bill, I do not see any reason why they should not know it.

Senator BARKLEY. I merely asked the question, because it was stated here on Saturday that Dr. Warren drew the bill.

Mr. WARREN. That is not true. As far as I know the case, the bill was drawn by the Treasury Department, but I do not know by whom. The first time I saw the bill it was in the Treasury Building.

Senator TOWNSEND. And you do not know who drew the bill?

Mr. WARREN. I do not know.

Senator KEAN. When did you first see the bill?

Senator GOLDSBOROUGH. Who were you in conference with when you saw the bill?

Senator WALCOTT. Let us get one question answered at a time.

The CHAIRMAN. Answer them all at once.

Mr. WARREN. I cannot state exactly when I saw the bill first. It was a short time before its introduction.

Senator KEAN. Was it as much as a month?

Mr. WARREN. No; I think not that long.

Senator WAGNER. That is not the main problem before this committee.

Senator GOLDSBOROUGH. I should like to repeat my question with the consent of the chairman of the committee, and ask who Dr. Warren was in conference with.

Mr. WARREN. At the conference at which I first saw it there were present Secretary Morgenthau, Mr. Oliphant, Mr. Laylin, and Professor Rogers.

Senator GOLDSBOROUGH. Who was Mr. Oliphant and who was Mr. Laylin?

Mr. WARREN. They are employees of the Treasury Department. I do not know their titles.

The CHAIRMAN. Mr. Oliphant was attorney for the Secretary of the Treasury.

Mr. WARREN. Yes, sir.

Senator WAGNER. Prof. Herman Oliphant, an eminent legal scholar.

Mr. WARREN. Yes, sir.

Senator BARKLEY. And he has been present at the most of these hearings?

The CHAIRMAN. Yes. And Dr. Rogers, I believe, was called to South Carolina on account of illness in his family.

Senator BARKLEY. There are two Professor Rogers in Washington. Which one do you refer to?

Mr. WARREN. Prof. J. H. Rogers.

Senator McADOO. Professor Rogers, of Yale.

Mr. WARREN. Yes, sir. We did not draw the bill. We were called in and asked our opinion about it, which we gave.

Senator BARKLEY. Let us get along now with the hearing.

The CHAIRMAN. You may proceed, Dr. Warren, in your own way.

Mr. WARREN. I have some data on prices which I have thought might be of service to you; and as I have said, I have prepared them on paper so that they might be a little more easily followed.

The first point that I should like to call to your attention is the type of price reactions we have been getting since February. For example, in England the price of gold, taking the daily average for

February and for December, increased 5 percent, and the average of the daily prices in this country increased 56 percent. It was at par in February and 56 percent above par for December. This 56 percent is not the R.F.C. price, which is for limited quantities of gold, but is the London price and combined with the exchange rate in New York, so that it is the price at which all gold offered could have been moved.

Senator KEAN. You would say this is the price of gold in America?

Mr. WARREN. I would say this is the effective price in dollars.

Senator KEAN. And you would say gold was worth that today in America; is that right?

Mr. WARREN. Well, yes; it is economically worth that.

Senator MCADOO. You mean newly mined gold?

Mr. WARREN. No. Newly mined gold is worth more than this. That is, the R.F.C. has purchased all newly mined gold at a price announced and has purchased limited amounts at world prices. Now, of course, such a price would not be fully effective unless the R.F.C. stood ready to buy all gold offered at that price.

Senator KEAN. Of course.

Mr. WARREN. But it did influence the price. The world price is up 56 percent.

Senator KEAN. Well, the price of gold today in America is, would you say, 34?

Mr. WARREN. It is 34.45.

Senator BARKLEY. Let us say that that is newly mined gold.

Mr. WARREN. Yes, sir.

Senator BARKLEY. Do you know whether the R.F.C. has purchased any gold in the United States at that price?

Mr. WARREN. I don't know, but I presume not except the newly mined gold.

Senator BARKLEY. And you don't know how much of that, if any?

Mr. WARREN. No. You would have to ask the R.F.C.

Senator BARKLEY. You are basing this 56 percent increase shown here on your sheet, on the world price of gold at the present time.

Mr. WARREN. For December. It is the monthly average. If you were a foreigner buying commodities in America, you would find that the price of gold in dollars had gone up 56 percent in your transactions. If you were an American selling to foreign countries you would find that the effective price which concerns you in your transactions had gone up 56 percent. Now, cotton has gone up 6 percent in England, and—

Senator GORE (interposing). Has gone up how much?

Mr. WARREN. Six percent.

Senator GORE. Thank you.

Mr. WARREN. That is, it has very slightly risen in gold. But it has gone up 68 percent in New York.

Senator WAGNER. Are you speaking now of the same parity in connection with cotton?

Mr. WARREN. Cotton has gone up 6 percent in England in their currency and 68 percent in New York in our currency.

Senator BARKLEY. It is rather difficult to understand these figures. They do not produce any cotton in England, do they?

Mr. WARREN. No.

Senator BARKLEY. They buy it from abroad, the most of it from this country, and we sell practically half of our cotton abroad. That is sold, presumably, at the world price. I do not quite understand your statement that cotton rose in England, where they produce none, and where they buy from us, 6 percent, but that the cotton we sold rose 68 percent. I am not disputing these figures, but I just do not understand them.

Senator WALCOTT. Professor Warren, isn't what you are doing here merely this: You are interpreting the decline of the dollar in terms of the advance of gold.

Mr. WARREN. Yes.

Senator WALCOTT. It is the same thing exactly.

Mr. WARREN. Yes. Now, in England the price of cotton has risen from—

Senator GOLDSBOROUGH (interposing). May I interrupt you right there for a moment: If gold has gone up the dollar has gone down.

Mr. WARREN. Yes, sir.

Senator BARKLEY. You do not mean the identical cotton we would sell in England represents a 6 percent increase in England, but that the same cotton represents a 68 percent increase in this country.

Mr. WARREN. Yes, sir; in the two moneys. For instance, the Englishman buys cotton in terms of his money, and he finds that that cotton has increased 6 percent. We sell cotton in our money and we find that that cotton has gone up 68 percent.

Senator BARKLEY. It is the relationship between the English and American exchanges?

Mr. WARREN. It shows how that relationship has affected prices.

Senator McADOO. May I ask you right there, because it is not shown on this statement, when the gold-buying policy began in this country, when it was inaugurated?

Mr. WARREN. The gold-buying policy was announced on October 22. It actually began 2 or 3 days later; the exact date I do not remember. But it was in effect for all of December.

Senator BARKLEY. But that was not the beginning of this difference between the English and the American price?

Mr. WARREN. No.

Senator BARKLEY. The dollar had been going down for some months as compared with English exchange?

Mr. WARREN. Yes.

Senator McADOO. It has been going down since we went off gold.

Senator KEAN. You haven't figured out what it means in the case of France, which is on a gold basis, nor for the Netherlands, which is on a gold basis. If you were to take countries on the gold basis, wouldn't it show that these commodity prices have practically not risen at all?

Mr. WARREN. Yes; or have slightly declined. But I have that for you a little later.

Senator KEAN. All right.

Mr. WARREN. That is, in gold. I will show you that data a little later. There has been no rise, or a slight decline in general.

Senator BULKLEY. Dr. Warren, what period are you discussing?

Mr. WARREN. The changes from February to December; comparing 2 complete months. Now, some persons think that if the price

of gold rose, every commodity should rise exactly the same, but there are other factors affecting prices. Cottonseed oil dropped 29 percent in England and rose 26 percent here; so that we are getting a similar relationship in that connection, but not an equal rise.

Senator BYRNES. What is your explanation of that?

Mr. WARREN. The world supply of cottonseed oil and the demand for it, compared with the supply of gold and the demand for it, were such that in gold cottonseed oil fell. If it had fallen exactly as much in gold as our dollar fell in gold, our first guess would be that it would have been stationary in our money.

Senator TOWNSEND. Where is our market for cottonseed?

Mr. WARREN. I do not know what percentage of it is exported. It is used very extensively both in this country and in Europe for the making of oleomargarine and as a substitute for lard.

The CHAIRMAN. You may proceed, Dr. Warren.

Mr. WARREN. Wheat rose 8 percent in England and 51 percent here. Copper rose 10 percent in England and 63 percent here. Tallow fell 7 percent in England and rose 50 percent here. Silver rose 11 percent in England and 67 percent here. Silver rose just a trifle in gold; that is, silver is worth slightly more in gold than it was.

There is one other type of commodity that I did not put on this statement: Hams rose 38 percent in England and only 21 percent here.

Senator BARKLEY. Did you say the price of hams rose 38 percent in England?

Mr. WARREN. Yes; and 21 percent in America. This is probably because of restrictions in England, with a limitation on the importation of hams. If we had been perfectly free to move them over there it would not have operated in this way.

Of course, an index number is much better than cases of individual commodities, because you see they vary individually. An index number in England, which is one of the oldest, is the Sauerbeck-Statist index number. We have prepared an index number for the United States which is as nearly like the Sauerbeck-Statist as we could make it.

There are two differences in commodities. They have palm oil in it and we do not have palm oil quoted here, so we put in an equal amount of cottonseed oil. They have flax fiber in their index and we do not have such a product, so we put in an equal amount of cotton. Otherwise the index numbers are as nearly alike as possible. The English Sauerbeck-Statist index number for February was 91, and 1913 it was 100.

Senator McADOO. Which sheet of your paper are you now referring to?

Mr. WARREN. The second sheet, the last two lines. The price in currency according to the Sauerbeck-Statist index was 91 in February, and according to our index, which is like it, it was 69 here. But by November prices in England had risen from 91 to 93, and here they rose from 69 to 94 in currency.

Senator BARKLEY. What does that represent as an average of all commodities?

Mr. WARREN. There are 45 quotations which are largely basic commodities. It is a good representative list.

Senator BARKLEY. In other words, it is a cross-section.

Mr. WARREN. It is a good cross-section of the largely basic commodities, such as coal, iron, copper, tin, lead, tea, coffee, sugar, wheat, and so on.

Senator KEAN. I think if you will take the French index for the same period you will find that it has varied a great deal less than that.

Mr. WARREN. This is England compared with her own prices, and ourselves compared with our own prices. Freight differentials existed at both periods.

Senator KEAN. I did not speak of freight. It was of France that I spoke.

Mr. WARREN. Oh, I beg your pardon.

Senator KEAN. The French index will show that it is almost—

Mr. WARREN (interposing). I have some figures that will show that in the case of France it did not rise.

Senator KEAN. That is what I wanted to bring out.

Mr. WARREN. England went up from 91 to 93, and we went from 69 to 94, so that we are one point ahead of them now. But in the case of gold, instead of 91 in February the English price level was 64 in gold and ours was of course 69. In England prices in gold have dropped from 64 to 61, and we have dropped from 69 to 59. So that in the case of gold there was a slight decline and in the case of currency a rise in both countries, in England a rise of a small amount, and with us a very decided rise.

Now, according to the Federal Reserve bulletin, from February to October—I haven't the November figures—prices in France fell 2 percent, prices in Holland rose 1 percent, prices in Italy fell 4 percent. These countries are on gold, and there is little change.

These two index numbers are shown in figure 1 so that you can see that a rapid decline occurred, beginning with 1929, in prices in both England and in the United States. In 1931 England left the gold standard, and thereafter her prices were more or less stabilized. We continued on the gold standard and our prices continued to decline. At a time when prices in gold were rapidly falling England left the gold standard, and her currency depreciated at about the same rate that gold appreciated. So she stood about still. She did not get a rise in prices but she was relieved from the decline. She could have had a rise if she had depreciated her currency more.

Senator GORE. But she did leave the gold standard and her prices continued to fall.

Mr. WARREN. Her gold prices continued to decline up to this fall. We left the gold standard in February, at a time when prices in gold were declining only slightly, so we got a decided rise in currency prices, and for November we were one point ahead of England.

Senator KEAN. But our prices are still declining in gold.

Mr. WARREN. Yes. The next page, being figure 2 of my statement, shows prices in gold. The lowest point in gold (1913 is shown at 100), for England was an index of 59 in October. Our lowest point is an index of 59 in November. In 1926 these index prices were: For England, 148—and that is not shown on the chart—and for the United States, 146. The latter figure happens to be the

same as the Bureau of Labor index number when 5 years before the war = 100. It was in England, 148 and in the United States, 146, and then fell to the low point which it has reached, 59, or each is just about 40 percent, at the low point, of what it was in 1926. That is prices in gold.

I have a curve in figure 3 which is the average of basic commodities for seven countries, which is a little smoother than it would be for a single country.

Senator TOWNSEND. What countries are they?

Mr. WARREN. The Netherlands, the United Kingdom, Sweden, Canada, France, Italy, and the United States. These are prices of basic commodities or largely so. These prices declined with great rapidity for 2 years from 1929 to 1931. Since 1931 prices in gold have declined but not with so great rapidity—a moderate decline. As we had 2 years of extremely rapid decline in gold, followed by a moderate decline, it looks as if the appreciation in the value of gold, which has been going on rather slowly, or not nearly so rapidly as during the 2 years, might be approaching the end. And we find these two index numbers at about 40 percent of the 1926 price level.

On the next page, being table 3 of my statement, I have presented some figures showing the changes in several things, and this is for the United States: From February to December the price of gold rose 56 percent; the price of 25 industrial stocks, according to the New York Times index, rose 76 percent; the prices of 30 basic commodities rose 42 percent; and the prices paid to farmers, as reported by the Department of Agriculture, rose 39 percent. The Bureau of Labor index, of all commodities, rose 18 percent.

There is much misunderstanding about the Bureau of Labor index for all commodities. When prices fall manufactured goods decline slowly and sometimes not at all for several years. They would ultimately decline to the new price level if given time. They are fairly stable. Then, if prices of some of them fall far and some not at all, some a little, if something comes in which tends to raise prices it raises emphatically those which fell emphatically, but those which had not fallen are merely relieved from the necessity of falling.

An index which is mixed, therefore, including many manufactured goods for which prices have not fallen or have fallen little, does not rise as much as the price of gold.

The cost of living in the United States from June to December rose 5 percent. We do not know what it rose from February, because the figures are not available. But in Massachusetts their index rose 1 percent up till June from February. We can therefore guess that the cost of living in the United States may have risen 6 percent since February. It did rise 5 since June.

Senator KEAN. That is measured in dollars, of course?

Mr. WARREN. What is it?

Senator KEAN. That is measured in dollars, and not in gold?

Mr. WARREN. This is dollars.

Senator KEAN. Yes.

Mr. WARREN. This is all American dollars. The cost-of-living index, if you cut the dollar in two in the middle, say for illustrative purposes, the cost-of-living index should, of course, not be expected

to double. It has not declined fully. That is to say, take such a thing as a telephone charge. If the telephone rate has not been reduced, it need not be doubled. It is already adjusted to a higher price level.

Senator McADOO. That is protected by law anyway.

Mr. WARREN. Yes; but there are multitudes of things in the cost of living which move slowly. That is the only point I am interested in. That is, many things in the cost of living have declined to only a limited extent. Having declined to only a limited extent, they are now high relative to general level of commodities prices and would not be expected to rise in proportion.

Senator McADOO. The point I am making on the telephone is this: With certain utilities where the price is regulated by law, that is in a sense an artificial price regardless of conditions; is that not true?

Mr. WARREN. Yes; but there are many other prices that move very slowly.

Senator McADOO. Yes; but I was talking about only these regulated utilities where the price is established by law.

Senator TOWNSEND. The telephone is not an element in the cost of living with millions of our people, either.

Mr. WARREN. That is true. I perhaps should not have used the telephone and kept my statement general, because all I am interested in is the price of many items of cost of living which have not declined quickly.

Senator KEAN. How about flour?

Mr. WARREN. Flour declines fairly promptly, bread much more slowly.

Senator KEAN. Bread has already gone up.

Mr. WARREN. Bread did not decline in proportion to the general decline of prices.

Senator KEAN. Bread has already risen.

Mr. WARREN. Risen some. The cost of living has risen 5 percent.

Senator McADOO. Bread has to rise to be bread, doesn't it?

Mr. WARREN. The only point I wish to make is that with a lot of things which decline very slowly and rise slowly that index does not need to rise and will not rise in proportion to the general level of basic commodities. It is relieved from falling.

The December figure for the cost-of-living index was 135, when 1913 was 100. The statist index number for November for the United States was 94,

Senator McADOO. That is not on this sheet, is it?

Mr. WARREN. No; that is not on the sheet. The cost of living for December was 135 when 1913 was 100. But these basic commodities in the statist index were 94, so they are still far out of line with the cost of living.

Senator BARKLEY. Have you any statistics or data as to the increase in cost of living since last June in this country, and what the increase is today?

Mr. WARREN. Five percent.

Senator BARKLEY. That is all.

Mr. WARREN. From June to December 5 percent is the Bureau of Labor figure.

Senator BARKLEY. Do you think that is accurate?

Mr. WARREN. Yes.

Senator BARKLEY. As accurate as it can be?

Mr. WARREN. Of course, no cost of living figure can be exactly accurate for each individual.

Senator BARKLEY. Oh, yes; I understand. I mean as statistics you think those are accurate?

Mr. WARREN. I think it is a reliable figure.

Senator BARKLEY. So that the average cost of commodities would have to rise from 94 to 135 in order to be on a parity with the relationship between the two in 1913?

Mr. WARREN. Yes.

Senator GLASS. Doctor, do you have there any comparative statement which will contrast the expansion in these various manufactured staple articles and the production of staple crops that would have any relationship whatsoever to the differentiations in cost of living and in prices?

Mr. WARREN. No, I haven't that data here. An index number for the cost of living or prices of course is made up of a multitude of things, each one acting according to its own supply and demand and the whole mass acting in relationship very largely to money.

For example, we have a rather large supply of cattle. A large supply coupled with unemployment makes meat relatively cheap. And we have a short supply of corn, which tends to make corn higher than it would otherwise be. It is high relative to meat. When all these things are put in a large index they are fairly well ironed out.

Senator GLASS. I understood you to say as I came in that the appreciation of gold was affected by a multitude of other things.

Mr. WARREN. The appreciation of gold is primarily affected by the demand for it, as the supply of it does not change much in a year.

Senator KEAN. Dr. Warren, isn't it true that the increase in gold at the present time is almost 4 percent?

Mr. WARREN. You mean the yearly production?

Senator KEAN. Yes.

Mr. WARREN. Yes; it is true that the yearly production is something like 4 percent of stocks. But previous to the war for a long period of years, in order to have the gold supply increased rapidly enough to maintain stable prices we had to mine about 5.6 percent of what we had. That would add about 3.15 percent to our monetary stocks under normal conditions, the remaining going into industry.

Senator KEAN. Wasn't that based on the time when you had gold coin circulated among the people so that everybody was carrying gold coin in their pockets, and at the present time gold coin is concentrated in banks?

Mr. WARREN. A limited amount of gold coin was circulating.

Senator KEAN. All Europe was circulating gold coin.

Mr. WARREN. Yes; they circulated a considerable amount of paper also.

Senator KEAN. Not prior to the war.

Mr. WARREN. Well, most of the European countries had some paper money.

Senator BARKLEY. When did the increase in the production of gold reach 4 percent per annum? For how long had it been maintained at that rate?

Mr. WARREN. It is rather recent. Gold production is low compared with anything that has been normal for our previous experiences.

Senator BARKLEY. The reason that I asked that question is that I read a statement from another economist the other day to the effect that from 1922 to 1929 the stock of monetary gold in the world increased only 1.8 percent.

Mr. WARREN. No; that is a mistake.

Senator GORE. Is that per annum, Senator?

Senator BARKLEY. Per annum; yes.

Mr. WARREN. Oh, per annum?

Senator BARKLEY. Per annum; yes.

Mr. WARREN. I don't know the figure, but that does not sound unreasonable.

Senator GORE. 1932 was the largest production in all history, wasn't it?

Mr. WARREN. Yes. Gold production in 1932, was 23,718,000 ounces. That was 5 percent greater than the output 20 years previous. This year's production promises to be—we don't know yet—but 1933's production promises to be just a trifle under 1932.

Senator BARKLEY. If the production in 1932 represents only a 5 percent increase over 1912, that represents only about one-fourth of 1 percent increase per annum?

Mr. WARREN. It is a small increase over the production of 1912.

Senator GORE. But 1912, 1913, 1914, and 1915 were the peak years, were they not, of gold production?

Mr. WARREN. Yes.

Senator GORE. And then it declined materially.

Senator BARKLEY. So that, with the fluctuations in the production of gold over a period of 20 years, we are now only producing 5 percent more than we did 20 years ago? Is that true?

Mr. WARREN. Yes.

Senator BARKLEY. How does that compare with the increase in the world business in that same 20 years?

Mr. WARREN. I haven't the data on that particular basis, but from 1914 to 1928 the world physical volume of production of basic commodities increased 38 percent, and the world monetary stocks of gold in the same period increased 38 percent.

Senator KEAN. How about the last 4 years, Professor?

Mr. WARREN. The last 4 years the physical volume of production was, of course, entirely abnormal.

Senator KEAN. Wasn't it abnormal before?

Mr. WARREN. No. I think in 1928 our physical volume of production had nothing abnormal about it.

Senator BARKLEY. Doctor, I am unable to reconcile those figures that you have just given. A moment ago you stated that for 1932 the production of gold was 5 percent greater than it was 20 years ago, which was in 1912. But you say that from 1914 to 1928 the increase in the monetary gold of the world was 38 percent.

Senator BARKLEY. I cannot reconcile those.

Senator GORE. It is cumulative.

Mr. WARREN. One is an annual production and the other is an accumulation of stocks. So they are not inconsistent. That is, we might have no increase in gold production. But if the production were high enough year by year the stocks would gradually grow.

Senator GLASS. Well, assuming, Doctor, that we have no increase in production of gold, no appreciable increase or decrease in the production of gold, but would have a decided overproduction in agricultural products or a very large overproduction in manufactured products, what would be the result of a condition of that sort?

Mr. WARREN. That would lower prices. That assumes, however, that we do get a very large overproduction in total agricultural products in the world, and it is very doubtful whether we have or ever had any decided and very large overproduction in all of agriculture for the world. We do get overproduction of one commodity or another.

Senator GLASS. If we do not have an overproduction, why did Congress appropriate a half a billion dollars to take care of the overproduction of wheat and cotton?

Mr. WARREN. To answer that properly I think I should have to digress from the question a moment and come back to it.

Senator GLASS. I do not want to interrupt the thread of your discourse.

Mr. WARREN. Let us take cotton: The question arises whether the world production of cotton is excessive. But agriculture is an industry that cannot stop easily. If a man abandons his fields, abandons his farm, it is difficult to start in again. Therefore, agriculture tends to go on fairly steadily, even though times are very bad.

Now, with the terrible unemployment which the whole world has been suffering for years, the consumption of cotton has been very low, and if a man goes without a new shirt long enough, he does not, when he gets a job, have to come back and use as many as he would have bought. And so, with the continued underconsumption, you get an accumulation of stocks due to underconsumption rather than to overproduction. Now, temporarily, that is just as serious to the producer as though it were overproduction. It is an under market, and you get stocks accumulated which are troublesome, due to the unemployment and underconsumption primarily.

Senator ADAMS. Professor Warren, looking on your tabulation on page 6 I note that the only thing that kept pace with the increase in price of gold has been the 25 industrial stocks. That is, that the prices paid to the farmers increased 39 percent, while gold increased 56. Apparently the labor index increased 18, while the gold 56, and basic commodities 42.

And the other point I wanted to draw you attention to is: I noticed in the tabulation of prices paid to farmers that it reached a point of 55 in July and then receded to 39 in December. I am wondering what is the explanation of that, where at the same time your gold prices were going up?

Mr. WARREN. Of course, prices in gold throughout the world have in general fallen a little this year. As to why farm prices first outran the gold price and then subsequently declined, I think that the anticipation of a further decline in the dollar or further rise in the

price of gold led people to overbid somewhat on farm products in July, and the price of gold you will notice from November to December fell, and declined in August.

So pessimism came into the situation, I should think. That is, we would not expect these to keep in exact order. If the price of gold is going up rapidly for several months, prices may outrun it. If it is going downward they may outrun it again.

Senator ADAMS. You need a tabulation of public optimism and pessimism to go along with this there.

Mr. WARREN. Prices continue to outrun the forces which cause them to move either way.

The next chart, which is table 4, shows prices in currency in various countries and prices in gold in various countries.

For example, in the third line there are prices in the Netherlands for 48 commodities. The index in August was 73, when 1913 was 100. Since the Netherlands have their pre-war currency, their prices in gold are 73 when 1913 is 100.

The next line is Australia, and the index for 92 commodities stood at 134 in August, but their price of gold had been raised 86 percent. So that prices in gold were 72, practically the same as Holland.

In Belgium, skipping one line, prices with 1914 as 100, were 501 in August. But Belgium has raised the price of gold by 6.94 times. So that in gold her prices were 72.

Taking just these three cases, we have actual prices in currency 73, 134, and 501; in gold 73 and 72.

Senator BARKLEY. Did the fact that the Belgian Government established a new unit of value which has a relationship of about 7 to 1 in Belgian currency, representing a devaluation from about 290 to 60 something, I believe, in the fineness of their gold, have anything to do with this change in index prices?

Mr. WARREN. I think it had everything to do with it. I think it is the cause of it. That is, in Holland on a pre-war currency their price level was 73. Belgium's price level in pre-war gold is 72, but it is 501 in currency. Whereas Australia in gold is 72, but the price of gold is raised and the actual currency price is 134.

That is, these countries have, given a little time for adjustment, determined the relationship of their currency prices to gold prices in other countries by the amount of devaluation.

Table 5 shows the total value of all listed stocks on the New York Stock Exchange according to the New York Stock Exchange Bulletin. On March 1 last they were \$19,700,000,000 plus in value. On January 1 of this year they had gone to 33 billion plus. The total value of all these stocks has increased 68 percent.

Senator TOWNSEND. What has been the decline in the dollar in that time?

Mr. WARREN. The rise in the price of gold was 56. The figure for January would be somewhat more.

Senator TOWNSEND. Then the actual difference would be 68 percent compared with 56 percent decline in the dollar?

Mr. WARREN. No. That 56 was for the whole month of December, and the stocks are for January 1.

Senator McADOO. There was no decline in the value of our domestic dollar?

Mr. WARREN. The price of gold was up 58 percent on January 2.

Senator McADOO. But there was no decline in the value, for instance, of our domestic dollar? It was just the same?

Mr. WARREN. There was a decline in the purchasing power.

Senator McADOO. There was an increase in the price of commodities?

Mr. WARREN. Yes.

Senator McADOO. But what I mean to say is the fact that we are off the gold basis has not affected the dollar in our domestic markets?

Mr. WARREN. It buys less.

Senator McADOO. It buys less, of course, but enhancement in value of commodities is the reason for the decrease in the purchasing power of our paper dollar?

Mr. WARREN. No. I should say the other way, that the decrease in the gold value of the dollar was the primary cause of the enhancement in the prices of commodities.

Senator McADOO. Either way the fellow who has a fixed income gets it in the neck, doesn't he?

Mr. WARREN. The man who gets a fixed income—

Senator McADOO (interposing). Wages, I mean, or salaries?

Mr. WARREN. He may or may not. It depends on whether his income is based on the kind of a price level we had been having last spring.

Senator McADOO. Let us take Government employees, or anybody who is working on a salary.

Mr. WARREN. Any person who is working on a salary and has not had a considerable cut would be faring better than he was faring before the depression came, and any person who had securities that were paying their former yield would be faring better than he would have fared before the depression, because the things he buys are still lower than they were before the depression.

Senator McADOO. Well, that may be true, but I am speaking of the present situation; that if the purchasing power of the dollar is decreased by these movements, why, the Government employee on a salary and anybody working on a salary, the white-collar class, so to speak—even labor—the buying power of the dollar in our domestic markets is to that extent reduced?

Mr. WARREN. Yes. The person who is getting his 1929 salary has much more than his 1929 purchasing power at present, but not as much more as he would have had last February.

Senator BYRNES. If the salary were fixed in 1928, at the time of the passage of the so-called "Welch Act", what would his status be today with reference to this price level and the purchasing power now and in 1928?

Mr. WARREN. I could not answer that at this time. It is perfectly evident that if his salary was fixed in 1928, and if he still gets it and got it in February, his condition in February was far better than it was in 1928, and his condition now is far better than 1928, but not as good as February.

Senator GLASS. But nobody but railroad presidents have the same salary.

Senator McADOO. And bank presidents—don't forget that.

Senator GORE. These aviation company heads have.

Mr. WARREN. I have no data on wages here. If you wish to go into them, I would suggest that you take the matter up with some of the persons from the Bureau of Labor Statistics. I can only state it in a general way.

Senator McADOO. Doctor, generally I would just like to have your opinion. We reduced the salaries of all Government employees 15 percent last year. Now, what is the effect upon those people as a result of the increase in commodity prices or cost of living?

Mr. WARREN. A person who was receiving a given salary last February and is receiving 15 percent less now would be in a less favorable position than he was last February. There was about a 5-percent increase in cost of living in that time.

Senator WALCOTT. About 20-percent difference then?

Mr. WARREN. According to the Bureau of Labor statistics.

Senator McADOO. I was just interested in your view.

Mr. WARREN. I would not want to go into that question without further data.

Senator BARKLEY. Let me ask you this rather hypothetical question. If we might assume that wages and salaries had declined in the past 4 years in the same proportion that commodity prices had declined, and assume, also, that both were too low economically, which must start up first?

Senator GORE. That depends on whether we have an N.R.A. or not.

Dr. WARREN. They may go together, in many cases, or one may start in ahead of the other. Most frequently commodity prices will start first, but not necessarily in all cases.

Senator BARKLEY. If there had to be a test as to a rise in commodities or in wages and salaries, which would logically precede the other?

Dr. WARREN. The commodities, to start the business and get men employed, and then to raise wages.

Senator BARKLEY. Theoretically, as commodity prices go up profits are increased to those who produce the commodities, resulting theoretically in an increase in wages; whereas if you increase wages and salaries first to the extent that those who had them increased would have their purchasing power increased, that might stimulate business, but it would not necessarily stimulate it all along the line? Is that true?

Dr. WARREN. The commodity prices would ordinarily start up first; but we do not want wages to lag behind too long.

Senator BARKLEY. No. If there were any way to make the increase simultaneous, of course it would be much better; but I am assuming that that cannot be done.

Dr. WARREN. Of course, commodity prices have risen 42 percent on basic commodities.

Senator McADOO. But your question, Senator, does not touch the Government employee. His wages are fixed by law, regardless of economic conditions.

Senator BARKLEY. But we are not dealing in this matter purely from the standpoint of the Government employee.

Senator McADOO. No; I understand that. But I was wanting to get the effect upon Government employees and I wanted to bring out the fact that despite these variations in the prices of gold and all

these stock-exchange conditions, and so forth, the Government employee is in a greatly different position. He is not affected by it one way or the other, except adversely.

Senator BARKLEY. While the Government employee has had a cut of 15 percent in his salary, the aggregate Government employment has increased and had increased even prior to March 1.

Senator McADOO. The number of people; yes. You are talking about the C.W.A.

Senator BYRNES. If the salary was fixed in 1928, in February of 1933 would the purchasing power of that salary fixed in 1928 be greater or less in February 1933?

Dr. WARREN. It would be greater.

Senator BYRNES. Then if in February 1933 there was a reduction of 15 percent, would that bring it back to the price level of 1928, when the salary was fixed? Would 15 percent bring it back?

Dr. WARREN. In terms of the cost of living, I think not.

Senator BYRNES. The employee naturally would be affected adversely compared with February 1933, but how would he be affected as compared with 1928 when his salary was fixed?

Dr. WARREN. I have no data from which to answer that question, and if I were to answer it I would want to begin with whether the salaries in 1928 were adjusted to the conditions of 1928, and then follow through. But I have not the data here from which really to answer that question.

Senator GORE. Doctor, I want to ask you a question or two. I read an article about a month ago which took January and February 1933 as the base line, and it said that from that base line down to the date of the article, about a month ago, the dollar had declined about 37 percent; that the general price level had advanced about 17 percent, and that if the general price level had reacted mathematically to the decline of the dollar, prices would have advanced 37 percent instead of 17 percent. Do you know whether that is approximately true or not?

Dr. WARREN. That must refer to the Bureau of Labor figures, the 17 percent.

Senator GORE. I think it does; yes.

Dr. WARREN. There was an incomplete decline, and many manufactured commodities naturally had no occasion to rise very much.

Senator GORE. That brings me to the next point. About that same time I saw a statement showing that for groups some commodities had advanced, I think, for six or eight groups perhaps, 9 percent. The highest, as I remember, was an advance of 46 percent. That shows that these groups do react very differently to the decline of the dollar, does it not?

Mr. WARREN. Yes.

Senator GORE. You say that farm products have advanced about 39 percent. Cotton has gone up from about 6 cents during this period to about 11 cents now. Does any part of that represent the processing tax?

Dr. WARREN. No. Cotton in London has gone up 6 percent and here 68 percent; and the processing tax would presumably raise it a very small amount on manufactured cotton goods, but not cotton.

Senator GORE. I am not talking about cotton goods. The processing tax adds about \$21 to a bale of cotton, does it not?

Dr. WARREN. Not to the price in New York. It is only the manufactured cotton that has a processing tax.

Senator WALCOTT. But it comes actually as an advance to the manufacturer of approximately 40 percent of the present price.

Dr. WARREN. But the price of cotton is quoted previous to the imposition of the tax.

Senator WALCOTT. Exactly, and the tax costs the manufacturer and, eventually, the consuming public about 40 percent more for cotton.

Senator GORE. According to that it would run it up to about 15.

Senator McADOO. The farmer would be the beneficiary of the processing tax.

Senator TOWNSEND. How would he be benefited if he buys the cotton back manufactured into goods?

Senator BARKLEY. According to that theory, he would have to give his cotton away because thereby he would get his goods back free.

Senator GORE. Taking exports of cotton during August, September, October, and November of 1932, in those 4 months we exported about 3,200,000 bales. During the corresponding months in 1933, August, September, October, and November, we exported 3,350,000 bales, approximately; about 150,000 bales more than we exported in the preceding year. The exports in 1932 brought in gold \$128,000,000. The exports in 1933 brought in dollars \$178,000,000, but in gold, on the basis of a 60-cent dollar, brought only \$108,000,000. So that with an increase of 150,000 bales of cotton in the fall of 1933 as against 1932, the decline in the gold value of the larger quantity was about \$24,000,000.

Dr. WARREN. Your figure of the 60-cent dollar is less than the exporter would receive.

Senator GORE. Sixty-six and two thirds would make it about \$114,000,000, which would be about \$14,000,000 less than the year before.

Now, with reference to total exports and imports for the corresponding period in August, September, October, and November 1932, all our exports aggregated \$432,000,000. For the same period in 1933 they aggregated, I believe, \$669,000,000. But on the basis of a 60-cent dollar they brought \$401,000,000—about \$31,000,000 less than in 1932.

The imports in 1932, August, September, October, and November, amounted to \$400,000,000. For the corresponding period of 1933 they amounted to five hundred and seventy million and odd dollars, I believe. On the basis of a 60-cent dollar there was a material reduction of over \$50,000,000. That represented in gold about \$348,000,000 in 1933 as against \$400,000,000 in 1932. So that the value of our foreign commerce measured in gold has slightly declined.

What is the effect or the significance as to our commerce and trade and our recovery generally?

Dr. WARREN. So far as cotton is concerned, it has been nearly stationary in gold. A bale of cotton this fall brought a slight amount more gold to us than it would have done last winter.

Senator GORE. At present quotations it would; yes.

Dr. WARREN. The reason for the general decline in export and import values in gold is, in part at least, due to the very high value which gold has acquired. So far as its effect on our prosperity is concerned, our prosperity is primarily indicated by the dollars that our people get.

Senator GORE. As you understand it, is the philosophy of this bill the commodity dollar?

Dr. WARREN. No.

Senator GORE. What is the general scheme? It provides for changing the gold content of the dollar from time to time, and that is implicit in the commodity dollar, as I understand it.

Dr. WARREN. The world is in a period of monetary chaos which it has been in for a considerable number of years; the desire for some latitude in the fixing of the gold content of the dollar is that you might not know exactly where to fix it at the moment, and if you did know exactly what was right at the moment, it might not be right later.

Senator GORE. Then this bill does not provide the mechanics for establishing the commodity dollar?

Dr. WARREN. No; I should say not. It does provide within a certain range for the changing of the price of gold.

Senator BARKLEY. The facts which you have been reciting, the comparison between the prices of commodities, have bearing chiefly with respect to the devaluation of gold provided for in this bill?

Dr. WARREN. Yes.

Senator BARKLEY. Do you believe that the gold dollar ought to be reduced?

Dr. WARREN. Yes.

Senator BARKLEY. Are you coming to a discussion of that more concretely a little later?

Dr. WARREN. Yes, sir. I will just take 2 or 3 minutes more on this phase of it.

Senator WAGNER. I would like to ask you one question. Whether commodity prices go up first or wages go up first, I am not so much concerned; but you agree that they must go up pretty well together?

Dr. WARREN. Yes.

Senator WAGNER. If they do not, we are inviting another recession?

Dr. WARREN. Yes. If either one gets far out of line with the other, you are in trouble.

In general, the process of recovery is aided by placing primary emphasis on volume of employment and volume of business for manufactured goods, rather than immediately place emphasis on wage rates and prices of manufactured goods.

When prices decline, prices of basic commodities decline more than prices of manufactured goods, wages, or the cost of living. In recovery, those things which declined most in general should, and do, rise first and most. But at the present time the price structure is in such a chaotic situation that any generalization must be used with great caution.

Senator GLASS. You mean, Doctor, that they could go up together; you do not mean that they necessarily must go up together?

Dr. WARREN. In actual experience in the past, commodity prices have run ahead of the wage increases by varying amounts. One

factory gets an order and is doing very well and raises the wages of its employees. Another factory may not have any new orders at all. So you might say it is a movement taking place in many spots. But the desirable thing is for them to go nearly together.

Senator WAGNER. In 1927, 1928, and 1929, the time of the crash, do not the figures indicate pretty definitely that commodity prices and profits went up very much faster than wages?

Dr. WARREN. Commodity prices were not rising materially. I have not the data on profits.

Senator KEAN. What made gold go up? Was it not that we bid for gold in any amount that was offered, and therefore it made the price of gold go up as compared with the dollar?

Dr. WARREN. After the gold-buying policy came in our buying unquestionably affected the price of gold.

Senator KEAN. If we bid for the entire amount of gold that is offered, naturally the market must go up.

Senator ADAMS. Under the existing conditions we have had our American currency, roughly, on a 62- to 64-cent basis. If we devalue gold to 50 cents will we get a 31- or 32-cent dollar?

Dr. WARREN. No. If we have been having a 60-cent dollar we would have, roughly, a 50-cent dollar.

Senator ADAMS. Then, our currency dollars redeemable in gold theoretically have been selling at, say, 60 cents, due to the appreciation of the price of gold. My mathematical mind is not equal to working out that, if you cut the redemption of the dollar from a certain quantity of gold to half that quantity, you will not cut the value of your currency in the same proportion.

Dr. WARREN. If you cut the dollar by 40 percent it is equivalent to a rise in the price of gold of 66 $\frac{2}{3}$ percent. If you cut the dollar by 50 percent, it is equivalent to a rise in the price of gold of 100 percent.

Senator KEAN. Just one more question there, Professor Warren. If you cut the dollar and keep forcing it down, when you relieve that pressure the dollar is going back somewhat, is it not?

Dr. WARREN. In external trade the dollar is comparatively strong. If we do not buy any gold I have no doubt that the dollar will rise in foreign exchange; the gold value of it will rise.

Senator WALCOTT. Possibly as high as 80 cents?

Dr. WARREN. That would be pretty hard to determine.

Senator KEAN. When France cut her franc, although she depressed it down to 2 cents, she valued it too low, and the consequence is that she has been suffering from undervaluation ever since, has she not?

Dr. WARREN. I would not say that France's difficulty at present was related to the figure at which she revalued. It is related to the fact that she revalued at a time when gold had a relatively small value throughout the world for commodities; then she has been confronted with falling price level due to the rising value of gold and not to the point at which she had previously revalued.

Senator KEAN. If we under-value our dollar, then the \$2,000,000,000 that we are talking of giving to the Secretary of the Treasury will not last very long, will it?

Dr. WARREN. If we offer to buy all the gold offered at a given price, I do not think the control will be impossible.

Senator TOWNSEND. Do you know on what basis the price of gold has been fixed from time to time as the purchases have been made?

Dr. WARREN. Only as stated in the President's address.

Senator WALCOTT. Professor Warren, I would like to see if we cannot define the goal toward which this argument is drifting. It seems to me, from what I have read of your writings and what you have said here today, that one of the most important theories you have on the relation of gold to commodity prices, which is what we are discussing, is that unless the gold production equals 5.6, I think is your figure, in percentage of the gold stocks, then commodity prices must fall; and to amplify I would like to read from an article published January 11 in the New York Herald-Tribune, written by Rufus S. Tucker. It is just a short paragraph. It reads as follows [reading]:

If we take the years in which the United States was actually on the gold standard, from 1834 to date, we find that in 51 of them gold production was less than 5.6 percent of the stock at the end of the preceding year. In 23 of these years prices rose; in 2 they remained unchanged; in 28 they fell. This shows only a chance relationship between gold production and prices. Taking prices for the next succeeding year—i.e., allowing a lag of 1 year—we find that in 21 years they rose, in 4 they remained unchanged, and in 24 they fell.

He says that Professor Warren's "theory worked in less than half the cases."

If there is no objection, Mr. Chairman, I would like to put this article in the record. It is written by Prof. Rufus S. Tucker. He is president of the Brookings Institute and was formerly an expert in the Treasury Department.

Senator GLASS. That may be done.

Senator BARKLEY. What is he now?

Senator WALCOTT. Expert economist at Brookings Institute.

(The article referred to and submitted by Senator Walcott, entitled "Warren Theories Versus Facts", written by Rufus S. Tucker, and published in the New York Herald-Tribune of Jan. 11, 1934, is here printed in full, as follows:)

[New York Herald Tribune, Jan. 11, 1934]

WARREN THEORIES VERSUS FACTS

[By RUFUS S. TUCKER]

Although economic theories are said to be hard to understand, the theories of Prof. George F. Warren, who is said to be the President's chief financial adviser, are very easy to understand, and the facts supporting them are plainly stated in his book.

Because of the importance of sound currency to every citizen, it is worth while to examine how closely these theories agree with the facts.

There are three principal theories concerning the relation of gold to commodity prices. They are all based on pre-war experience, and prices have not conformed to them in any way since 1914, as Professor Warren admits, although he has a number of excuses for the failure of his theories during this period.

The first theory is stated on page 80 of Professor Warren's book in these words:

"For 75 years before the World War world monetary stocks of gold had to increase at the same rate as the world physical volume of production in order to maintain stable commodity prices in England. If gold stocks increased more rapidly than other things, prices rose; if they increased less rapidly, prices fell."

Taking Professor Warren's own figures from the table on pages 78 and 79 of his book, we find that in 37 of the 75 years from 1840 to 1914 world monetary stocks of gold increased more rapidly than world physical volume of production, and therefore, according to Professor Warren's theory, prices should have risen. In fact, prices fell in 17 of those years and rose in only 16, remaining stable in 4. In 30 of the 75 years world gold stocks increased less rapidly than physical volume of production, and according to Professor Warren prices should have fallen. They actually rose in 15 years and fell in only 14, 1 being stable. In 8 years gold stocks and physical volume of production rose at the same rate. In 3 of these prices rose, in 3 they fell, and in 2 remained unchanged. The number of years in which prices conformed to Professor Warren's theory was 32, the years in which prices moved contrary to his theory numbered 38 and in 5 years they failed to move when his theory said that they should. Of course, if the theory had no truth in it at all, the number of years conforming would have been, according to the laws of chance, about $37\frac{1}{2}$, and if the theory had any real significance the number of years conforming would have been at least 45.

So much for the first theory. The second is as follows:

"For the 35 years before the World War prices (in the United States) rose if the monetary stocks of gold increased faster than the production of other things, and fell if gold increased less rapidly." (Prices, p. 83.)

In those 35 years the world stock of gold rose faster than the physical volume of production 19 times; in 8 cases prices rose; in 9 they fell; and in 2 remained unchanged. The stock of gold rose more slowly than the physical volume of production 14 times; in 11 cases prices rose (absolutely contrary to Warren's theory); in only 2 cases they fell, and in 1 remained unchanged. In the 2 years in which Professor Warren's theory called for stable prices, prices were not stable. In the whole 35-year period Professor Warren's theory was supported by the facts 10 times; it was flatly contradicted 20 times; and failed to operate 5 times.

Professor Warren's third theory is as follows:

"For the 30-year period—1885 to 1914—monetary stocks of gold in the United States had to increase at the same rate as the physical volume of production in the United States in order to maintain the stable commodity prices. If gold stocks increased more rapidly than the production of other things, prices rose; if gold increased less rapidly, prices fell."

This statement is absolutely false. In the 30 years under discussion gold stocks rose more rapidly than production, according to Professor Warren's own tables, 17 times; in 9 of those years prices rose, in 7 they fell, and in 1 they remained unchanged. On the other hand gold stocks rose less rapidly than physical volume of production 13 times, and prices fell in only 3 of those years, they rose in 8, and remained unchanged in 2. The proportion of years of rising prices to years of falling prices was greater when the gold stock rose less than the physical production than in the years when the gold stock rose more than the physical production. Professor Warren's theory was borne out by the facts in only 12 of the 30 years, was contradicted by the facts in 15, and failed of confirmation in the remaining 3. This 30-year period is the only period in history which appears to support his theory, even when drawn on a small-scale chart in such a way and with such a choice of base as to give his theory the best possible chance.

* * * * *

None of Professor Warren's three theories concerning the effect of gold stocks and physical production on prices was in any way supported by the movement of prices in the corresponding year. Was there perhaps a lag? Did prices move in the next year the way Professor Warren expected? In the majority of cases they did not.

The figures show that Professor Warren's first theory of the ratio of world stocks of gold to world volume of physical production correctly foretold the movement of English prices in the following year only 32 times in 75 years—five times less often than tossing pennies would have done.

His second theory correctly foretold the movement of United States prices in the following year only 19 times out of 35.

His third theory was successful 16 times out of 30. Almost as many failures as successes in the one period of our history (1880-1914) when it is possible to see even a surface resemblance between his theories and the facts.

If the ratio of gold stocks to the physical volume of production of other commodities has any effect on prices at all, it obviously must affect the prices of the goods then in existence or then being produced—not the prices of goods produced several years later. Consequently, if Professor Warren's theories are not supported by the movement of prices within the given year or the following year, it is absurd to try to justify them by what may have happened to prices 5, 10, or 13 years later, as he and his followers occasionally do.

Moreover, if any attempt is going to be made to manage the currency so as to keep the price average level it would be absurd to base it on theories that are so thoroughly contradicted by the historical record.

Professor Warren also has several other theories, frequently inconsistent, that cannot be checked so easily by the figures published in his book, because they are not so specifically stated.

Perhaps the most important of these is the theory that gold production must equal 5.6 percent of existing gold stocks to prevent commodity prices from falling. If we take the years in which the United States was actually on the gold standard, from 1834 to date, we find that in 51 of them gold production was less than 5.6 percent of the stock at the end of the preceding year. In 23 of these years prices rose; in 2 they remained unchanged; in 26 they fell. This shows only a chance relationship between gold production and prices. Taking prices for the next succeeding year, i. e., allowing a lag of 1 year, we find that in 21 years they rose, in 4 they remained unchanged, and in 24 they fell. His theory worked in less than half the cases.

If Professor Warren's first theory were correct, the price index in Great Britain (reckoned in gold) would now be about twice as high as it is. If his second theory were correct, the price index in the United States would be, in gold, nearly twice as high as it is, and in paper money at least 25 percent higher than it is.

If Professor Warren's third theory were correct, the price index in the United States would be, in gold, three times as high as it is, and in paper well over twice as high as it is.

Since none of them is or ever has been correct, wouldn't it be a fine thing for the country if the President would dismiss Professor Warren as his financial adviser and take in his place some economist whose theories have at least some relation to the facts?

Senator BARKLEY. How many theories of economics are there, Doctor?

Dr. WARREN. I would like to insert a correction in the answer that I gave you, Senator Townsend, as to the reason—

Senator TOWNSEND. My question was as to the basis on which you fix the price of gold.

Dr. WARREN. It is my understanding that the price of gold was fixed in such a way as to stop the very serious decline that obtained in October.

Senator TOWNSEND. But it was an arbitrary fixing of the price by some one, was it not?

Dr. WARREN. Yes; as I understand it, it was fixed by the President, the Secretary of the Treasury, and the head of the Reconstruction Finance Corporation.

Senator GLASS. That was the supposition; but was it a fact?

Dr. WARREN. It is a fact, as far as I know.

Senator WALCOTT. The Secretary of the Treasury stated it as a fact the other day. The Secretary of the Treasury stated that those three fixed the price of gold—the President, the Secretary of the Treasury, and the chairman of the R.F.C.

Senator TOWNSEND. Chairman Jones testified that the price was handed to him. He does not know where it was fixed.

Senator GLASS. Therefore I say that it is a supposition and not a fact.

Senator TOWNSEND. I am only quoting the Secretary of the Treasury.

Mr. WARREN. Answering the other question as to the quotation by Mr. Tucker, in 75 years there was no trend away from the relationship of gold to prices. In 1850, for example, the ratio—dividing the world's monetary stocks by world production of basic commodities—was 105. Prices in England were 105. Sixty years later, although the monetary stocks had increased from an index of 23 to 147, the physical volume of production of the world had increased from 22 to 140, and we had the same ratio. In other words, in 1910 the ratio of the world's monetary gold to the world's production of commodities was the same as it was 60 years before.

Senator GORE. Would the fact that silver was in use as money then react on prices and destroy its analogy?

Mr. WARREN. I think not.

Senator GORE. You think gold exercised the power, notwithstanding?

Mr. WARREN. I am giving you the figures as they are, regardless of gold, which is the question in point in this discussion. Mr. Tucker's question is not why this happened, but is it true?

Senator GORE. Let me interrupt you with another question. I saw a statement the other day by an economist who remarked that you had to consider the phases of these cycles. He made the point that they were entirely different; and it was rather a coincidence, the correspondence in the price levels of 1850 and 1910, and that one trend was in one direction at one date and in another at another date. I do not know enough about this subject to have an opinion. What is your reaction to that?

Mr. WARREN. I think my answer to the question that Mr. Tucker raised will answer that also. If I have not answered it sufficiently when I complete my answer to this other question, I will come back to it again. May I repeat, that the ratio of the world's gold stocks to the production of basic commodities in 1850 was the same as the ratio of 1910, 60 years later. Prices in England in 1850 were 105, and in 1910 they were 106. That is, there was no trend away from this ratio.

But the year-to-year changes fluctuate around this line as the waves fluctuate about sea level. If you count the waves and how they differ from sea level, I do not know how you will come out, but I am sure the waves fluctuate about sea level; and I think the best answer to the question is merely to look at the curves on the charts that I will pass down the line, and you will see how the two lines in this book called Prices fit. The one is fluctuating about the other. One may be going up and the other down, but they are going together.

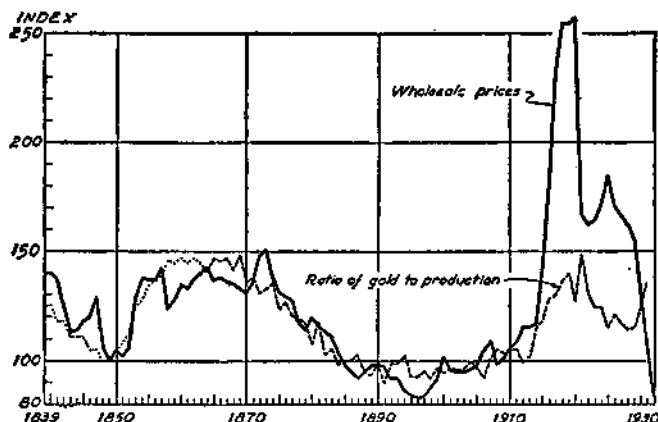


FIGURE 60.—RATIO OF WORLD'S MONETARY GOLD STOCKS TO WORLD PHYSICAL VOLUME OF PRODUCTION COMPARED WITH WHOLESALE PRICES IN ENGLAND, 1839-1932.

1880-1914 = 100.

For the 75 years before the World War, prices rose if the world's monetary stocks of gold increased faster than the production of other things and fell if gold increased less rapidly. An exception occurred during and after the World War when most of the countries of the world discontinued the gold standard. However, the relationship has been restored.

Senator GORE. Do you accept the quantity theory of money, whatever that is?

Mr. WARREN. I should have to enter into—

Senator GORE. What I was getting at is this—

Senator WALCOTT. Let him finish this answer, please, Senator.

Senator GORE. Oh, I beg your pardon.

Mr. WARREN. That long-time relationship fitted just as well as those two curves fit. But the essential point is that there are no trends away from the relationship, and not that they fitted in any given year precisely. The curves speak for themselves.

Carrying this one step further, the world's gold supplies in 1928 were 38 percent greater than they were in 1914. The world's production of basic commodities was 38 percent greater than in 1914, and, therefore, if the conditions of 75 years before the war had continued, we would have expected prewar prices as nearly as those two curves had fitted in the past—prewar prices plus or minus some small difference which, if it were minus would before many years become plus, and if it were plus would before many years have been minus, if past experience had held.

In other words, the assumption would have been approximately prewar prices in 1928. Why were prices throughout the world, in gold, roughly 50 percent above prewar for a long period? The answer, I believe, is a very important consideration in this situation. The reason, I believe, was on the demand side for gold. The continent of Europe went out of the gold business. It discontinued bidding for gold, not only went on paper, but actually discontinued bidding for gold, and much of the gold went elsewhere. That which did not go elsewhere lost value, because gold was in low demand everywhere, so that throughout the world gold was in low demand and prices in gold rose.

Senator GORE. What period was that, in point of years?

Mr. WARREN. That was from 1915 up to 1929, when the break came. During that period it was much as if a large part of the world had demonetized gold and had gone to copper money, or anything else. The remaining parts of the world were the only bidders for gold, and the gold was cheap, and we had a price level, roughly 50 percent above prewar.

Many persons who challenge this gold statement formerly said that the price level would remain up, and their arguments today for it going back are precisely the same as the arguments they then had for it remaining up—clearly fallacious—I think. There was no reason for expecting that any such price level would remain when the world attempted to return to gold; when the world attempted to return to gold, prices in gold collapsed.

There was no increase in the world's gold supply to justify the expectation that all of a sudden the countries formerly on gold could be on gold with a price level 50 percent above the level which the gold supply would, by historical experience, be expected to support. A sudden change of that sort is very improbable, but the cessation of demand reduced the value of gold. Prices in gold rose. The return of the demand caused the crash.

France returned to gold in June of 1928, and the panic was soon on. She was in a peculiarly strong position with respect to gold. The Germans had had to pay reparations. Those reparations were largely paid by Americans and other investors who lent money to Germany. The gold was still here, in many cases, and in some cases in England, but it was passed to German possession, then passed to French possession, and still was located in the same spot. But when France began to attempt to return to gold she was in a very strong position with gold credits, and the crash was soon on. I am not blaming France. I am merely saying that when the world attempted to return to gold there was not gold enough to maintain that cheap gold, and France happened to be the country which was in a very peculiarly strong position, and the turning point came soon after she returned to gold. But it would have come anyway.

We had one other illustration like this—and only one other in our history of any comparable degree—and that was in the other period of world-war experience—the Napoleonic Wars period. At that time France was one of the leading industrial nations of the world.

Senator WALCOTT. You are going back to the period of the assignats?

Mr. WARREN. Yes. France was one of the leading industrial nations of the world, and she did much the same as Europe did this time, discontinued to bid for gold and silver. At that time gold and silver were both commonly used. Both gold and silver lost value suddenly, and prices in the United States from 1790 to 1795 rose 46 percent. That was not due to the world having discovered suddenly a great supply of gold and silver. It was due to a portion of the world which had been using gold and silver suddenly discontinuing to be in the market for them, and they lost value in other countries. Prices in England rose 34 percent.

Senator GORE. That was due in part to the war and the war demand for commodities, was it not?

Mr. WARREN. I think I will answer that in just a moment. I hope I do not forget it. I would rather wait just a moment, if you will pardon me.

Senator GORE. Excuse me.

Mr. WARREN. We were then for a long period on this high-price level. During the War of 1812 the United States for a short period discontinued the metal standard. In March 1817 we returned to the metal standard, but our prices were more than 50 percent above the prices of 1790.

Then England started to return to the metal standard; it took her 2 or 3 years. She completed the process in 1821, and her prices and ours both fell nearly to the level of 1790, from which there was no recovery. There was a recovery when we found gold in California, but no cyclical recovery.

There is one peculiar difference in the two situations, that in this war only the gold-using countries discontinued bidding for their metallic base and only the gold-using countries had the inflation of 1914 to 1920. China did not have the inflation of 1914 to 1920. Her prices, which had been rising gradually for many years, continued to rise gradually during our inflation of 1920. She did not have the deflation of 1929, but is right now having serious deflation. I have shown you elsewhere that silver has been rising in value relative to gold. She is getting some deflation now.

In the Napoleonic-French Revolution period both gold and silver-using countries had a rise in prices. Countries which suspended metallic currencies used gold and silver, and both gold and silver got cheap. Both gold-using countries and silver-using countries had inflation, and when they returned to the metallic standard both gold- and silver-using countries had deflation simultaneously. This time China did not have the inflation which we had, which, I think, suggests the answer, in part, to the war question of Senator Gore.

Senator WALCOTT. Dr. Warren, it might be interesting to add to that very interesting recital of yours that following the reign of the profligate Louis and the assignats, France was plunged into a reign of terror and the guillotine, caused by too much paper. The first proclamation that Napoleon made was that they return to the specie payment. That is a pretty important observation.

Mr. WARREN. Yes.

Senator WALCOTT. I am not suggesting that this bill does it, but is it not a possibility that if the stabilization fund that is proposed should fail—and I personally do not see how it could succeed in competition with the combined forces of Europe—we might be drifting into a period of extreme inflation, willy nilly, of paper currency?

Mr. WARREN. The occasions of extreme inflation, so far as I have been able to find them in history, have been preceded by governmental bankruptcy and usually as the result of revolution or extended war at the time. If we should drift into wild inflation, it would be a very unusual historical occasion, unless we, previous to that, had had a revolution.

Senator McADOO. You mean a violent revolution or an economic revolution?

Mr. WARREN. I mean a violent revolution.

Senator McADOO. By force?

Mr. WARREN. Yes. Of course there is no danger of that.

Senator GLASS. Doctor, what was the percentage of rise in commodity prices in France in the period of the assignats?

Mr. WARREN. The rise in prices? The assignats finally became substantially valueless, much as the German inflation this time. I cannot tell you offhand what prices became, but they were practically infinite. German prices this time went up to something like a trillion to one. That may not be quite right. The currency was finally revalued at a trillion to one. With such wild inflation prices go to indefinite heights.

Senator GLASS. You have the mathematical figures for the picture, have you?

Mr. WARREN. I have the mathematical figures for Germany.

Senator GLASS. I mean for France. They are not understandable, are they?

Mr. WARREN. It is pretty difficult to understand paying a trillion marks for a handkerchief, for example.

Senator GORE. They tried to prevent the advance of prices in France through the guillotine, the death penalty.

Mr. WARREN. Whenever prices start to rise violently the governments begin to try to stop them, but, of course, if they are having wild paper inflation, their trying is of no avail.

Senator GLASS. They first guillotined those who refused to engage in the inflation, and later they guillotined those who started the inflation.

Senator GORE. A sort of retributive justice.

Senator McADOO. I think there is a very wide-spread confusion in the public mind about the meaning of this bill. When we get into the discussion of these complicated statistics they do not clarify the public thought at all. Perhaps I am rather stupid myself, but I must confess that I do not find anything convincing in these various statistics covering more than a century. We are dealing with a present condition. This bill has a specific purpose. Could you not, in simple language that the average layman can understand, tell us what benefits will result to the country, in your opinion, if this bill enacted into law?

Mr. WARREN. What benefits will come to the country from a bill of this sort? One thing that it does is to narrow the range within which the dollar is to be revalued. That, I think, is a steadying effect, both here and elsewhere, both from the force of deflation and the force of inflation. It tends to check the risk of either. The easiest way to bring inflation is to persist in deflation, beyond what you can carry out. I think that that range is of benefit.

Senator McADOO. Aside from that, I think we have to consider first the fundamental purpose here of devaluation itself. I think that is the most important thing for us to consider in reaching a conclusion about the measure, and I would like to know what you think, as accurately as you can judge it—of course you cannot do it specifically, but so far as you can—give us your ideas as to the benefits that are likely to come from devaluation to 60 percent, or to 50 percent, especially with reference to the masses of the people of the country.

Mr. WARREN. Why any devaluation?

Senator McADOO. Yes.

Mr. WARREN. The last page which you have, table 6, shows the prices of gold in various countries. Ours is among the low group. You will note that in Australia, New Zealand, and Denmark, gold prices are over 90 percent above par. This is the price of gold, and not prices in gold. They have nearly cut their currency in two in the middle. The group comprising England, South Africa, Canada, and the United States are from 50 to 60.

Senator BULKLEY. How is the gold price determined in the United States?

Mr. WARREN. This gold price is the London price of gold in shillings, and the closing quotation on the exchange rate in New York of that day.

Senator BULKLEY. In other words, your price in the United States is determined by the London price transferred into American currency?

Mr. WARREN. Yes. I use that because that is the price which men dealing with us in business affairs have to pay for their dollars.

Senator McADOO. I would like to bring you back to my original question.

Mr. WARREN. I am coming to that, Senator.

Senator McADOO. I know; but we are getting back into these vast statistics again.

Mr. WARREN. Yes.

Senator McADOO. I would like to get, if possible, in as simple language as we can, language that would be understandable by the average layman, what specific or general benefits will come, in your judgment, from this devaluation and from the enactment of this bill into law.

Mr. WARREN. If you will give me just half a minute more on the statistics, I think you will see the relationship.

Senator McADOO. I see them, but I think myself that generally they are not understood. I mean to say that statistics are so difficult for the average person to comprehend that he does not get the proper deductions from mere statistics. I think we have to explain it in simple language.

Mr. WARREN. Suppose I do it without any figures.

Owing to reduced demand for gold, gold lost a lot of its value. Prices in gold-using countries rose very high, and stayed there for a long time. Our whole civilization got adjusted to high prices. Everything we paid for got adjusted to a high-price level. Our debts were up; our public and private debts were up; wages and salaries; the price of a hair cut; taxes; the price of wheat and cotton; the price of houses went up, and men began to carry large amounts of life insurance because of their increased incomes. That was loaned out on these houses at high prices. We got adjusted to a high-price level through no fault of ours, and I would explain it because the rest of the world discontinued bidding for gold. But it is immaterial whether I am right or wrong in my explanation. We got adjusted to a high-price level.

Senator McADOO. Was not the tariff a very large factor in that situation?

Mr. WARREN. No. It is world-wide.

Senator McADOO. So far as our home market is concerned?

Mr. WARREN. Our rising tariffs were to cure the depression. The depression started under low tariffs in this country, or relatively low. We never have had really low tariffs.

Senator McADOO. I was only speaking of it as a factor in the situation, therefore minimizing the effect of gold.

Mr. WARREN. The world-wide movement to raise tariffs has been to cure the depression. The depression came first, and the tariffs came afterward. When you find your prices are falling, then there is a world-wide movement to say "We must hold our markets for our own people, and we will put up the barriers." That, in turn, becomes a troublesome thing, but it is caused by the panic. The raising of the tariffs, caused by the decline in prices, then, in turn, becomes a troublesome thing.

Senator BARKLEY. There had been no decline in prices when we started to raise our tariffs in this country.

Mr. WARREN. As I recall it, Mr. Harding came in on a program of raising tariffs in order to improve the situation.

Senator BARKLEY. But in 1929, immediately after the election of 1928, began the process of raising tariffs in this country, which did not complete itself until 1930, but the Congress started in to raise tariffs long before there was any crash and long before there was any depression in this country. There may have been processes working independently of the tariffs that finally brought the collapse, but I recall that one of the strong arguments some of us made against the tariff of 1930 was that there was no need nor expectation of an increase in tariffs over those of 1922, and the process by which this tariff was increased was started months before there was any evidence of depression in this country, and it was completed in the very midst of the depression, so far as it had developed following the crash of 1929.

Senator McADOO. I want to apologize for interrupting the doctor in connection with the tariff issue, because I would like to get back to the other thing.

Mr. WARREN. These excessive tariffs and these trade barriers have been very largely augmented in an effort to prevent the declining price level from affecting each particular country.

Senator GLASS. Do you think the almost insane speculation or gambling in stocks had anything to do with the depression?

Mr. WARREN. To a limited extent. We became adjusted to a high-price level, and one of the reasons for the boom in stocks was because of the high-price level. That was one of the accompanying things.

Senator GLASS. You do not think it was one of the causes?

Mr. WARREN. To a limited extent; not the fundamental cause.

Senator GLASS. Would you undertake statistically to delimit it?

Senator McADOO. I tried to get away from statistics, Senator.

Senator GLASS. All right. I will withdraw the question.

Mr. WARREN. For some reason the gold-using world had a high-price level, and having it, it could do nothing else than become adjusted to it. For some reason prices in gold-using countries collapsed. I would say it was because of returning demand for gold.

Senator BARKLEY. Because of what?

Mr. WARREN. The return of the demand for gold; attempts to re-establish the gold standard—I will say, as I have been saying since 1918, that any country which attempts to maintain its pre-war currency in gold may expect prices below pre-war for an indefinite period, unless some important countries demonetize gold and stop bidding for it.

If the gold-using world returns to gold, or keeps bidding for gold, we may expect prices in gold-using countries to be below pre-war for some years. I have been making that statement since 1918. The reasons now projected by various economists for saying that we can return to former prices and all be on gold, and have pre-war currency, are the same reasons that those and other economists used from 1918 to 1929 in their conclusion that prices would not fall, and some of them, in connection with banks, advised lending money on the basis of that high price level to various countries and various individuals. That was a clear indication of their belief that prices would not fall. I would like to submit that prices have fallen.

Senator GLASS. Doctor, may I ask right there, if it does not interrupt the course of your reply to Senator McAdoo, what occasion this country had to bid for gold when the reserves of all the reserve banks and all the member banks were way above the legal requirements?

Mr. WARREN. Would you mind if I just hold that for a moment, and return to it later?

Senator GLASS. Very well.

Mr. WARREN. I will just say a little more, and then come to that directly.

Any country can stand a certain amount of deflation. No country can stand an unlimited amount. England and the United States will stand about as much as any country before they will do anything to interfere with their money.

Senator TOWNSEND. The same theory applies to inflation.

Mr. WARREN. Yes. The world has been attempting to deflate. One country after another has found it impossible. Thirty-four countries have now tried it and given up. We were the last of the 34. Two countries still are maintaining their pre-war currencies, Holland and Switzerland, and doing it with great difficulty.

This is a world-wide situation, not made by our country or any other country. Thirty-four experiments in deflation have been tried. We were the thirty-fourth to give it up. The amount of deflation was more than could be carried through, and the key to the turning point is probably when it became impossible to collect, to foreclose, to carry out the processes of deflation. Deflation means cut. It means to take property away from people who cannot pay and sell it to others; but if there is too much property, there become few buyers. We tried to the point where we could not collect. We could not foreclose, and so we, too, left the gold standard, along with the rest; and so far as I can observe, none of the 33 countries—or ourselves either—is very seriously proposing to attempt again to restore pre-war currencies.

It then becomes a matter not of attempting again the impossible—we tried it heroically—but of how to proceed from where we are. We gave up that attempt, and I do not need to recall to you the

situation the country was in last February. The question then becomes how to proceed from where we are.

Now, let us take up the question of buying gold, which Senator Glass asked about. What reason was there for the United States to begin to buy gold last fall? To control the value of the dollar.

Senator McADOO. May I interrupt, Doctor, to ask this. Since the President had the power under the act of Congress to devalue the gold dollar by 50 percent, was it necessary to buy gold in foreign countries to enable him to perform that function?

Mr. WARREN. Of course, there are many legal complications that were involved, and, as I understand, this legislation is intended to clear those up.

Senator McADOO. No; I am talking about the actual devaluation of the dollar. It was not necessary to buy gold at constantly increasing prices in Europe in order to devalue the gold dollar by 50 percent. That could have been done at any time by Executive order.

Mr. WARREN. Of course, you have a number of questions involved which are largely legal. Being no lawyer, I hesitate to go into them. As I have heard lawyers discuss it—

Senator McADOO. Do you think that buying gold in foreign countries would rid you of the legal question, if any arose?

Mr. WARREN. I am speaking of revaluation now.

Senator McADOO. Devaluation.

Mr. WARREN. Why not, instead of buying gold, at once have cut the dollar by a given amount?

Senator McADOO. Yes; or successively, in such stages as he thought necessary, between 50 and 100 percent?

Mr. WARREN. I have heard some lawyers discuss the question of whether he had a right to do it successively.

Senator McADOO. If he bought gold in foreign countries, that would not cure the legal doubt, would it?

Mr. WARREN. No. The question I am answering is, Could he readily have cut the gold content of the dollar by, say, 50 percent? You used that figure, I believe?

Senator McADOO. No; I say between 50 and 100 percent. He could have successively reduced it.

Senator BULKLEY. No; he had authority to revalue only once.

Senator GLASS. Professor Warren, you misinterpret the import of my question entirely. It did not relate to this thing of buying gold at all, which was instituted arbitrarily and without legal warrant. I am not talking about that. This country had 43 percent of the gold of the world, and the reserves of the Federal Reserve banks, and of all the member banks, were excessive. You said this trouble was brought upon us by various countries bidding for gold. What I am asking is, What necessity was there for this country bidding for gold, long before this gold purchase incident happened? What was the necessity for this country bidding for gold when, as a matter of fact, we were complaining bitterly that we had too much gold, and that there was a maldistribution of gold? What occasion had the United States to bid for gold?

Mr. WARREN. Previous to our suspension of the gold standard?

Senator GLASS. Yes.

Mr. WARREN. Previous to the suspension of the gold standard, we were not bidding for gold, in the sense of Government policy, but only economically bidding for gold.

Senator GLASS. But you said the bidding for gold by various nations of the world is what brought on this trouble. What I am asking is, What necessity was there for this country bidding for gold?

Mr. WARREN. Before we left the gold standard, we had a free-gold standard, and the interplay of business and shifts of funds from one country to another by private investors resulted in our accumulating gold without any governmental activity. It was the result of the processes of business and speculation of various countries. I call that bidding for gold. That is, it is an economic bidding, but not a national bidding. It is a thing that, if you are on a free-gold basis, you neither excuse nor praise. It is simply the process of business.

Senator BARKLEY. Would the fact that we had an enormous trade balance have any relationship to this automatic bidding or acceptance of gold in settlement of our international balance?

Mr. WARREN. Trade balances are important, and another very important thing since the war has been the movement to invest first in one country and then in another. There is a considerable sum of capital which moves from one country to another, seeking investments.

Senator GLASS. Great Britain went off the gold standard because it did not have any gold. It had to go off. Why did we go off?

Mr. WARREN. If we had continued on the free-gold standard a few more days, we would not have had any either. It would have been in the hands of our people, and if we had allowed it to be exported freely, undoubtedly much of it would have been exported. In one case the country continued on gold and attempted to redeem its currency until its gold was gone. In the other case the country stopped just before it was gone, and held the gold. It is a matter of a short period of time.

Senator GLASS. Of course, that is conjecture. You are conjecturing that everybody who had what was then a redeemable currency note would have demanded redemption.

Mr. WARREN. I think the quantity of gold that was being moved out in the last few days of our gold standard was enormous.

Senator GLASS. Is it not a fact that had all of Europe presented simultaneously all of the claims against this country and its nationals, it could not have drawn down more than 700 million dollars of the more than 4 billion dollars of gold that we had?

Mr. WARREN. But the American people who, as long as we were on a free gold standard, could withdraw gold freely from our banks, could either keep it here or send it abroad indefinitely.

Senator McADOO. An embargo would have arrested that.

Senator GLASS. They commenced to send it abroad when we went off the gold standard, and not before.

Mr. WARREN. I think when we went off the gold standard we prohibited that.

Senator GLASS. I know we prohibited it. We prohibited liquor at one time, but everybody who wanted it got liquor. We prohibited

it, and through divers ways the people could get around the law, and did.

Senator BYRNES. Mr. Chairman, may I ask a question of the Doctor? Doctor, is it not a fact that prior to that time——

Senator WALCOTT. He is just answering a question.

Senator BYRNES. What was the question? There was no question.

Senator WALCOTT. Yes.

Mr. WARREN. After the gold standard was suspended, undoubtedly gold not in the banking system was to some extent bootlegged out of the country, but the gold in the banking system was preserved.

Senator WAGNER. Is it not a fact that gold was being quickly withdrawn during the closing days of the gold standard?

Mr. WARREN. Yes.

Senator BYRNES. I want to know if, prior to that time, Dr. Warren, gold was not being taken out of this country and deposited in other countries before we went off the gold standard.

Senator WAGNER. He has just said so.

Mr. WARREN. Yes, sir.

Senator BYRNES. Was it not also being hoarded?

Mr. WARREN. Yes, sir.

Senator BYRNES. Had it not become quite common for many people in this country to withdraw gold and deposit it in Canadian banks and in other banks, banks of other nations?

Mr. WARREN. There was some of that. I have not data as to how much. Of course, it is a matter of common knowledge.

Senator GLASS. Doctor, you answer these questions "yes." The reserve balances of the Federal Reserve banks and of the member banks do not answer it "yes." They were not drawn down.

Senator BYRNES. I consider, when you answer it "yes", that I know of individuals who did it, and there are at least two gentlemen at this table who know of cases in which it was done.

Senator McADOO. That did not affect the general situation very much.

Senator BYRNES. I have not any figures, but I know that if it was done to any extent it affected it.

Senator GORE. Now, Doctor——

Mr. WARREN. I should like to suggest, if I may, that the fundamental reason for our leaving the gold standard was not in the supply of gold. The fundamental reason was that the amount of deflation was so great that we could not carry it through. We could not foreclose and sell homes and farms to the degree that was necessary to deflate. We could not cut to the degree it was necessary.

Senator KEAN. Can we now?

Mr. WARREN. I think not.

Senator McADOO. May I apologize again, because I think I have been equally guilty with some of my colleagues of interrupting you? You were proceeding to answer the question which was asked you sometime ago, and which you have not done yet.

Senator GORE. I would like to ask a question.

Senator McADOO. Just a minute, Senator Gore. Without reference to these statistics, as I have already said, is it not possible to explain to the country what value or benefit we are going to get out of cutting the gold dollar in half, or by 40 percent, and just how

it is going to operate upon wages of labor and fixed incomes in the country, and life-insurance companies, and so forth? I will withdraw that. I will just limit it to wages of labor and salaried positions in the country.

Senator GORE. I wanted to ask a question relating to——

Senator WAGNER. Let the doctor answer one question at a time.

Mr. WARREN. By cutting the gold content of the dollar you can raise prices. All countries that have done it have raised prices if cut at a time when gold was not rapidly rising in value. We are in that situation now. By cutting the gold content of the dollar we raise prices. By raising prices it becomes easier for men to pay their debts. By raising prices business starts and profits accrue. It becomes easier to pay taxes. Raising prices, since it starts business, starts employment.

What effect will it have on the different groups of people? The greatest benefit accrues to the home owner, the farmer, and other debtors, because their debts are fixed in dollars. A great benefit comes to the holder of life insurance, because, while his dollars will be less valuable than these swollen dollars which we had recently, his company will probably remain solvent.

If I may inject just one figure, which I missed awhile ago, the total value of all American securities, both stocks and bonds, listed on the New York Stock Exchange, increased from \$45,000,000,000 in March to \$61,000,000,000 this January, or 35 percent. It makes it possible to collect. We think a great deal of the debtor who cannot pay, but if the creditor cannot collect, what value is it to him to have the dollar go back to its old gold value?

What will it do to salaried people? It will do various things, depending upon how they are situated. Certain people are receiving their previous salaries. Their position has been improved, so far as salary is concerned, by a decline in prices. By a rise in prices, their position will be restored to what it was, which will be not as good as this unusual situation, but most such persons are either in danger, in deflation, of losing their jobs or having their salaries cut. Also, those who do not will be relieved of their relatives. Let me give you an illustration which has only a few statistics in it. I know of a doctor who said he had a \$7,000 a year practice. This was last winter. He said that leaving the gold standard and rising prices would be injurious to him because his dollars would not go so far. I asked him, "How are collections?" He could not collect, and I said, "How about the relatives?" Then he threw up both hands, and said, "Father and mother and brother and his wife are just coming."

Nominally this doctor was injured by having prices rise. Actually he may be able to collect, and his relatives may be able to live by themselves.

Take the man with life insurance. I figured my own life insurance, when I paid it, the amount paid, and weighted it by the price level. I did not invest in my life insurance at this price level. If I received dollars, or if my estate should receive dollars which have a buying power equal to the dollars which I saved, I think that is enough, and I would much prefer that to having my life-insurance company agree to pay dollars so valuable that they could not pay.

Last winter I was cautiously looking over the list of securities of certain life-insurance companies, for very personal reasons. I am not looking at them any more. I think that my life insurance is becoming good again.

Senator GLASS. It is good because the Government of the United States is paying enormous sums into the life-insurance companies.

Mr. WARREN. But all American-listed securities have risen 35 percent.

Senator WAGNER. And the unemployed who secure employment will be better off then than they are now, when they are unemployed.

Senator BARKLEY. Is it not true that one of the reasons why the Government has had to pump money into the coffers of the insurance companies was to enable them to make loans on policies due to unemployment and deflation?

Mr. WARREN. Unquestionably.

Senator GLASS. The record of the Banking and Currency Committee will show that the representatives of the insurance companies came before us and strenuously objected to being included in the list of those who were to be helped. They thought the implication would do them more harm than good, and it did.

Senator BARKLEY. But they borrowed just the same.

The CHAIRMAN. They changed their minds.

Senator GORE. Everybody will borrow who can.

Senator GLASS. Yes. I said they borrowed because the implication came pretty near destroying confidence in insurance companies and everybody else.

Senator WAGNER. They have no other way of meeting their obligations except to borrow.

The CHAIRMAN. Professor, the debts in this country, public and private, amount to some 235 billion dollars, and the national wealth of the country is about 236 billion. How is it going to be possible to pay that debt of 235 billion dollars on the present existing basis?

Mr. WARREN. I think it is impossible to pay the public and private debts without reducing the gold content of the dollar.

Senator McADOO. If the debts are of the magnitude the Senator described, something like 235 billion dollars, and we double the number of gold dollars by cutting the present gold dollar in half, making it 8 billion of gold instead of 4 billion dollars, do you think that is really going to make any impression on this tremendous amount of debt?

Mr. WARREN. It will make an enormous impression.

Senator McADOO. To what extent, Doctor? I am not asking in an antagonistic way, because I really want to be informed myself.

Mr. WARREN. I understand. When you raise prices you restore debt-paying ability by a greater percentage than you raise prices.

Senator McADOO. Provided you raise incomes, too, or earning capacity.

Mr. WARREN. If you raise prices you raise incomes. If you raise incomes you raise debt-paying power by a much greater percentage than you raise incomes.

Senator McADOO. Is not your argument really that by doubling the number of gold dollars which are legal reserves of the banks you

increase the opportunity for a very great inflation through the issue of currency and paper money based upon that deflated gold?

Mr. WARREN. I would like to express it that if we raise prices by a reasonable amount we have reflation, and if we go too far we have inflation. I would like to distinguish between the two.

Senator McADOO. Can you tell where reflation ends and where inflation begins? That has been one of the difficulties I have always found to exist. There is no clear line.

Mr. WARREN. As an abstract principle, I should say that if we restore the price level to which our civilization is most nearly adjusted, that I would call reflation.

Senator McADOO. What is to determine that price level? I do not think we can say arbitrarily that 1926 is the basis to which we ought to work, and yet we are using that constantly as a basis for consideration, not only statistically but otherwise.

Mr. WARREN. It depends on your debt structure and on the restoration of equilibrium within the various price structures. That is not a very popular terminology, but I do not know how to express it accurately and briefly otherwise. It will raise most, the prices that have fallen most and not raise prices that have not fallen, which restores the balance.

Senator GORE. You said awhile ago that this was a world-wide situation, Doctor, and it undoubtedly is to some extent. Do you think there has been a maldistribution of gold?

Mr. WARREN. A maldistribution?

Senator GORE. Yes.

Mr. WARREN. Yes.

Senator GORE. Do you think we have had more than our share?

Mr. WARREN. I think that if the world goes back to a gold standard ultimately our percentage of the total will probably run less than at present.

Senator GORE. You remarked awhile ago, in answering Senator Byrnes, that gold was leaving the country and was going to Canada, or going abroad, and that if we had not imposed the embargo, that much more would have gone. If we have more than our share, and there is a maldistribution, would that have been a good thing or not? Ought we to have adopted an embargo, or ought we to have allowed the gold to go back where it was most needed?

Mr. WARREN. Under the conditions at the time I think an embargo was very desirable.

Senator GORE. If this gold had gone abroad and served as a basis of credit abroad, and had increased credit from $2\frac{1}{2}$ to 10 times, would not that have increased the prices of our exports?

Mr. WARREN. Under these conditions I think not.

Senator GORE. Let me ask one more question. I would like to get this point cleared up, Doctor, because the rule does not seem to work both ways. It was implied here that the departure of gold ought to have been stopped. I want to get clear at this point why the absence of gold, or the departure of gold, would have made any difference or inflicted any damage, when the presence of it did not accomplish any good. I want to bring you this point. England went off the gold standard in September 1931. At that time we had 5 billion dollars 15 million in gold. That was the high water mark

in all history. During that month stock prices declined on the New York Stock Exchange 27 percent, or an aggregate of 20 billion dollars, or a little over. We had more gold than we ever had. Why did not that serve as a buffer and save the market if the departure of gold last spring would have inflicted any injury?

Mr. WARREN. I think it would not have made any material improvement in our commodity markets to have shipped some of our gold from one of our banks to be impounded or hoarded in Europe.

Senator GORE. Well, now——

Mr. WARREN. The time may come——

Senator GORE. Why were not prices higher in this country in September 1931, when we had the largest amount of gold we ever had? Why were not prices higher than they had ever been, if there is any fixed relationship between the gold and prices?

Mr. WARREN. The relationship between gold and prices is world supply of gold balanced against the world demand for gold. The location of the gold has only a very limited effect on that.

Senator GORE. Would it not be a good idea, then, to let some of this gold leave us, and raise the embargo, let the gold go away, and not impound it in the Treasury, as this bill proposes to do?

Mr. WARREN. The time may come in the future when we may be interested in that. I think at the present time it is good property to keep.

Senator BARKLEY. You were asked a while ago by Senator McAdoo whether this bill did not offer an unlimited opportunity for wild inflation. Is there anything in this bill that authorizes the Federal Reserve System to issue a single dollar in currency that it cannot now issue?

Mr. WARREN. If the gold content of the dollar is reduced, it is entirely possible that more currency can be issued.

Senator BARKLEY. But the Federal Reserve banks are to be paid for this gold in dollars of present value. So, they will have gold certificates equal to the amount of gold dollars in value that they now have, upon which they could issue Federal Reserve notes and Federal Reserve bank notes. But the number of dollars they could issue based upon these gold certificates will be no greater than the number of dollars they can issue now, based upon the actual gold.

Mr. WARREN. Unless they later receive additional gold certificates.

Senator BARKLEY. Yes, of course.

Mr. WARREN. If they receive additional gold certificates——

Senator BARKLEY. They could do that if they received additional gold, if this bill were not passed.

Mr. WARREN. This makes it possible for them to have more gold certificates.

Senator BARKLEY. Only upon the theory that the Government itself would use the gold it impounds in the Treasury for duplicate currency in addition to the Federal Reserve currency.

Mr. WARREN. Yes.

Senator WAGNER. The same reserve in dollars is maintained, is it not?

Mr. WARREN. You will have a possibility of more gold certificates.

Senator WAGNER. I understand that——

Senator TOWNSEND. What effect do you think this bill will have upon the Federal Reserve banks? We are all interested in that.

Mr. WARREN. I think that you will have other persons who can answer that better. I will give you my opinion on it. So far as taking the gold away from the Federal Reserve banks and substituting for it gold certificates is concerned, the Government holding the title to the gold, I do not see that the Federal Reserve bank is placed in any different position, unless it is a psychological difference.

Senator GLASS. The Government practically holds title to the alleged gold certificates, does it not? It prohibits the Federal Reserve bank from paying them out, and it makes a criminal of anybody who is caught with one of them.

Mr. WARREN. Of course, there should be a distinction made between the regulations concerning gold, which could operate precisely the same with the gold in the hands of the Federal Reserve, and the question of whether the Federal Reserve should have the physical gold or the certificates. Regulations concerning the withdrawal of gold so as to protect it from hoarding would have nothing in particular to do with the Federal Reserve bank operations. We have those regulations now.

Senator BARKLEY. While it is true that Federal Reserve banks cannot pay out the certificates they get in return for this gold, they can issue currency upon those certificates and pay it out.

Mr. WARREN. Just the same as if it were gold.

Senator BARKLEY. Yes; just the same as if it were gold.

Senator GLASS. Irredeemable currency. Doctor, do you think the confidence of the public, and particularly the business public, has anything to do with the transaction of business and confidence in the banks?

Mr. WARREN. Certainly.

Senator GLASS. Do you think an irredeemable currency is preferable to a redeemable currency?

Mr. WARREN. We have to begin from the position in which we are, with the world in monetary chaos. I think to establish at this moment, or to say that the Government will freely redeem any currency in gold, and let anyone come in from anywhere in this country or other countries, would be unfortunate. I do not think the world is in a position to start that at present, involving coinage, and so forth, going directly back to the old gold standard. Even though in the future it might be desirable, it would be undesirable at this time. Restrictions must be continued.

Senator BARKLEY. My question did not relate to the world. It related to this country. Why do we have a 5 percent gold redemption fund in the Treasury?

Mr. WARREN. Of course, those funds are because we wish a backing for our currency.

Senator BARKLEY. Is it not because over a long period of years it was determined that even less than 5 percent of redemption is demanded?

Mr. WARREN. Answering your question just one point further: The question of whether we should go back to coinage or not, or whether there should be restrictions, it seems to me that even in the indefinite future it would be undesirable again to put ourselves

in a position where there could be a run on the gold supply without machinery for stopping it. Now, if you say we will have absolute redeemability of every piece of currency on demand, you don't have that control. So it seems to me that even indefinitely in the future we ought to have the privilege of preventing a run on the gold supply. That does not prevent your currency from being on a par with gold.

Senator GLASS. Well, as I pointed out, over a long period of years, it was ascertained that less than 5 percent and a little more than 4 percent as a redemption fund would be all that would be required to meet the demands for redemption. What is the basis of the conjecture that the American people are going to try to loot the gold from the Treasury now?

Senator McADOO. Well, Senator Glass, national bank currency has never had more than 5 percent of gold for redemption.

Senator GLASS. That is what I say.

Senator McADOO. I did not know whether you referred specifically to that or not.

The CHAIRMAN. It had Government bonds back of it.

Senator WAGNER. Dr. Warren has not had a chance yet to answer the question.

Senator GLASS. Government bonds are not redeemable in gold any longer.

Mr. WARREN. It seems to me it would be very undesirable for us at this time, no matter what we might do in the future, to adopt any policy which would allow all persons and all countries to withdraw gold.

Senator GLASS. Frequently in the course of your testimony you have said "at this time." You realize that this bill is a permanent measure. Would you put a limitation upon the bill?

Mr. WARREN. No; I would not.

Senator GLASS. Then you did not simply mean "at this time" but you meant at any time.

Mr. WARREN. Yes; I would have a provision permanently to prevent a run on the gold supply. This bill does not prohibit any man who needs gold for industrial uses from getting it to the extent of his needs. It does not prevent the use of gold to settle foreign balances. It seems to me that when those needs are provided for it is sufficient.

Senator McADOO. Then, with those exceptions we go, frankly, on a paper basis, don't we?

Mr. WARREN. Well, it is a gold-bullion basis.

Senator McADOO. But if one cannot get the bullion, how about that?

Mr. WARREN. You can get it for any need except hoarding.

Senator McADOO. I mean except for the needs you specified, we will be on a paper basis if we adopt this method.

Mr. WARREN. I shouldn't say so.

Senator McADOO. What value would it be to have a note payable in gold if one cannot get the gold for any purposes except those you have outlined?

Mr. WARREN. You can get gold for the uses of industry.

Senator BARKLEY. Wouldn't the fact that this gold is impounded in the Treasury as a basis ultimately inspire more confidence in our currency than to leave it to be withdrawn or hoarded or sent abroad by Tom, Dick, and Harry, who might for some temporary period have need for it?

Mr. WARREN. I don't think there will be any trouble about confidence in our currency.

Senator BYRNES. Mr. Chairman, we can hardly hear the debate up at your end of the table. But if there is no one up there propounding questions at this time some of us down here would like to ask some questions. I want to ask Dr. Warren this question: In response to a question by Senator McAdoo as to the reason for this bill you stated that it had become the custom about a certain superimposed structure existing about 4 years ago. Since that time has there been any reduction in debts or taxes, and has there not been a very slight reduction in the cost of living, while, on the other hand, wheat has fallen from more than a dollar to 30 cents a bushel, and cotton from 20 cents to 5 cents, and that there must be a readjustment?

Mr. WARREN. Yes.

Senator BYRNES. How can that readjustment, in your opinion, be accomplished other than by the devaluation of the dollar?

Mr. WARREN. I do not see any other way.

Senator BYRNES. Either debts and taxes must come down or prices of commodities must go up; is that right?

Mr. WARREN. Yes. We have tried the first way and failed at it.

Senator BYRNES. As to cost of distribution, while there was some decrease, was that decrease comparable in any way with the decrease in prices of commodities of this Nation?

Mr. WARREN. There was not. The index price for the cost of distributing the food supply in the United States—well, I have no figure later than October, but this figure was standing at 150, while the pre-war figure was 100, and the farmers were receiving 74. The cost of distribution has not declined at all in proportion to the prices of things distributed.

Senator BYRNES. You either had to cut debts and taxes and cost of distribution or raise the prices of commodities?

Mr. WARREN. Certainly.

Senator BYRNES. And you believe that by devaluation you can in a measure accomplish that?

Mr. WARREN. I do.

The CHAIRMAN. Any other questions?

Senator BULKLEY. Do you think bidding for gold by the R.F.C. or any Government agency has a tendency to raise the world price of gold?

Mr. WARREN. Daily figures on a series of basic commodities have been followed through on that for a considerable period of time, and we do not find a very appreciable influence.

Senator BULKLEY. Wasn't that because the purchases were so small?

Mr. WARREN. It would not necessarily follow that even if purchases were large commodity prices of gold throughout the world would have been changed. The daily index of 15 commodities—and for this purpose they are basic commodities, such as cotton and

wheat quoted both in London and New York, taken from the Journal of Commerce and the New York Times, for the same commodities. If you take October 21 as 100, with prices in gold to tell whether gold went up in value; and I have one as late as December 15, and here is where they are running in gold in England on December 13, 14, and 15, and they were 100, 100, and 99.

Senator BULKLEY. How much gold was actually purchased?

Mr. WARREN. Not a large amount.

Senator BULKLEY. You could bid for gold in any amount without having a tendency to increase the price?

Mr. WARREN. It would not necessarily follow that if the United States bought considerable amounts of gold the value of gold in terms of commodities in the world would change. There is also another side to it: The offer to buy all gold presented at a given price does not mean necessarily that large amounts will be presented at that price.

Senator BULKLEY. Not if we offered to buy all that is presented?

Mr. WARREN. No.

Senator TOWNSEND. What was the price when we began to buy gold?

Mr. WARREN. The price of gold?

Senator TOWNSEND. Yes; when we started in the market.

Mr. WARREN. The price of gold in the United States—and I have the daily prices since we left the gold standard—

Senator TOWNSEND (interposing). I mean last fall when we started to purchase in foreign markets, what was the price then?

Mr. WARREN. Our price on the 21st of October was about \$29.

Senator TOWNSEND. What is it now?

Mr. WARREN. The world market price—

Senator TOWNSEND (interposing). It is \$34, isn't it?

Senator BULKLEY. That is in American currency. What I am talking about is whether American bidding for gold affects the world price of gold. Of course, it affects the price in American currency, because that is arbitrarily bid up. What I am trying to find out is whether it has any effect on the world price of gold.

Mr. WARREN. I would say that up to date there is no evidence that the purchases by the R.F.C. have materially influenced commodity prices in gold.

Senator WALCOTT. But it is a reaching for gold, and it is that reaching for gold, which you have been describing, which tends to put prices of commodities down, isn't it?

Mr. WARREN. Not necessarily.

Senator WALCOTT. Why, you just said that.

Mr. WARREN. Gold is all sold in the London market every day, and as to which man gets it does not necessarily strikingly affect commodities exchanged for it. It does affect the number of dollars that gold will be worth, and that was the purpose of it.

Senator KEAN. When you bid for any amount of gold and you stand there and take it all, that naturally fixes the price that anybody can get the gold at. It means that nobody can buy at a price less than you are bidding.

Mr. WARREN. It may fix the price that your dollar will buy.

Senator KEAN. No; it fixes the price of the gold.

Mr. WARREN. In your dollar.

Senator KEAN. In your dollar; and also, if anybody wants gold, they have to pay more than you are bidding.

Mr. WARREN. In your dollars, always. Buying gold to control the value of currency may or may not raise the world value of gold materially. It may primarily affect the gold value of the currency. It is possible that the provision for a more efficient use of gold and greater freedom in the treatment of it may result in some increase in world prices in gold, or some reduction in the value of gold.

Senator KEAN. Now, I should like to ask you this question. If you look at the statistics on gold deposited in the mints from, say, early of last year up until October, you will find that the gold deposited in the mints always fell off 50 percent, or it fell off very largely. Now, there is probably just as much gold produced in the United States as there was before. Therefore, doesn't that show that somebody is still hoarding gold?

Mr. WARREN. I haven't followed those figures through, but I have no doubt there are some people hoarding gold. I do not think the hoarding is a very important factor in the price situation of the country. I am not defending any hoarder, but his influence, I think, is not great. There is not enough of it.

The CHAIRMAN. Are there any other questions?

Senator TOWNSEND. Dr. Warren, what is the answer to the question often asked, How do we justify our Government paying thirty-four dollars and some cents for gold in a foreign country and taking our own gold at \$26 or \$27? What is the justification for doing that? I mean a justification that we can offer to our people at home?

Mr. WARREN. Citizens and banks of the United States were required to turn in their gold and get dollars for it.

Senator TOWNSEND. Yes; but what about the price?

Mr. WARREN. Presumably because we did not wish those dollars to represent that amount of gold. But they got the dollars, which was what they were using. That gold then was turned in to the Federal Reserve System at that price. Of course, if the Federal Reserve System receives as many dollars as it has dollars' worth of gold, it will have received full pay. I think that is all the explanation you need.

Senator TOWNSEND. And that seems just in your mind to our own people, does it?

Mr. WARREN. And the probable future higher price of gold is overlapping and clearing up the former situation, so that one who had a \$20 gold piece in his pocket had to turn it in and received therefor \$20 in paper. And that is the overlapping of a new situation, pointing to a future in which we will pay more for gold.

Senator TOWNSEND. And that transaction seems just to you?

Mr. WARREN. It seems just to me under the circumstances, in fact almost inevitable.

Senator KEAN. If a man puts in a \$20 gold piece and receives \$20 in currency, you think it is just that he should receive 50 cents on the dollar for his currency; is that it?

Mr. WARREN. No; he receives a dollar for the dollar.

Senator BARKLEY. As a matter of fact, the Federal Reserve banks, none of them, paid more than \$20.67 for a single ounce of gold, did they?

Mr. WARREN. That is true.

Senator BARKLEY. So they are getting what they have paid for it?

Mr. WARREN. They are getting what they paid for it.

Senator GORE. But they did not get as much of what they bought.

The CHAIRMAN. Let us take a recess for lunch now, until 2.30 p.m.

Mr. WARREN. Mr. Chairman, I have a statement which I presented before the American Economic Association which is clearer, I think, than the one I have given, and so far as it does not overlap I wondered if it could go into your record?

Senator BARKLEY. Mr. Chairman, I move that it be made a part of the committee's record.

The CHAIRMAN. All right, without objection that will be done.

(The statement above referred to is herewith printed in full, as follows:)

SOME STATISTICS ON THE GOLD SITUATION

Since the gold problem is of such general interest, it is desirable to examine the statistical position of gold. Of course, in the space of a brief paper, only a few of the many important points can be considered and these only very inadequately.

GOLD SUPPLIES

Cassell, Kitchen, Woytinsky,¹ and others have shown that for more than 75 years before the war, any period in which the world monetary stocks of gold did not increase a little more than 3 percent per year was a period of falling commodity prices in gold-standard countries. Before the war, prices in England and in the United States were in close adjustment with this long-time ratio. If this relationship had continued until 1928, world monetary stocks of gold would have been expected to support a price level about 10 percent below 1914 prices.

The writers² have shown that for 75 years before the war, the ratio of world monetary stocks of gold to the world physical volume of production of basic commodities equaled wholesale commodity prices. Short-time deviations from this relationship occurred, but there was no trend away from it.

The Sauerbeck-Statist index number of commodity prices in England in 1914 was 2 percent higher than this relationship would call for and the United States Bureau of Labor Statistics index was 2 percent lower than this relationship would call for.

From 1914 to 1928, the world monetary stock of gold increased 38 percent. World physical volume of production also increased 38 percent. If the 75 year pre-war relationship had continued, pre-war prices would have been expected.

The reason for the difference between this result and the calculation by Cassel and others is that before the war the physical volume of production was increasing at the rate of 3.15 percent per year, but that production of commodities was slowed down by the war.

Some persons have believed that there was or would be a world-wide increase in the efficiency with which gold stocks were used and that a given gold supply could suddenly support a price level 50 percent above that which 75 years of experience would indicate. The writers have found no indication of a sudden increase in the gradual growth of efficiency in the use of gold and therefore have, since 1918, been stating the conclusion that commodity prices would return to pre-war or lower.³

¹ Cassel, G., *The Theory of Social Economy*, p. 447, 1924. Kitchen, J., *The Supply of Gold Compared with Prices of Commodities*, interim report of the Gold Delegation of the Financial Committee of the League of Nations, Document C, 375. M. 161, September 1930. Woytinsky, W., *Das Rätsel der langen Wellen*, Schmollers Jahrbuch, 55 Jahrgang, Viertes Heft, p. 30, 1931, maintains that world gold stocks must increase 3.142 percent per year to maintain stable prices.

² Warren, G. F., and Pearson, F. A., *Money and Prices*, *Farm Economics* 74, p. 1685, February 1932. Warren, G. F., and Pearson, F. A., *Prices*, p. 76, 1933.

³ Warren, G. F., and Pearson, F. A., *Prices*, pp. 117-123, 1933.

The reason for expecting prices to go below pre-war was that after a period of monetary chaos, inefficient use of gold was to be expected. This subject is further discussed later in this paper.

GOLD PRODUCTION

Since the discovery of America there have been four periods of high gold production. The central points of the first three periods were about 1550, 1750, and 1853.

More gold was produced in 1853 than in any subsequent year for 40 years. The fourth period of rapid increase in gold production began in the nineties and continued to 1912. Apparently, the rapid increase was then over. Production did not increase very rapidly from 1910 to 1914. Production fell from 22,605,000 ounces in 1912 to 15,452,000 ounces in 1922. Much of this drop was due to the low value of gold. This makes it impossible to determine what the course of production would have been had there been no war. Since the price collapse in 1929, recovery has occurred and production is somewhat more than in 1912. Of course, normal world business is far greater than it was in 1912, so that gold production is not keeping pace with the normal growth of business.

The writers have shown that for 70 years before the war any period in which yearly gold production did not equal about 5.6 percent of monetary stocks⁴ was usually followed by a period of falling commodity prices. During this period, the production of commodities was rising at about 3.15 percent per year.⁵ A 5.6 percent production was sufficient to provide for industrial uses and increase monetary stocks rapidly enough to support the price level. Present gold production is less than 4 percent of the world monetary stocks. World monetary stocks of gold are probably a little above 600,000,000 ounces. A production of 5.6 percent of this amount would be more than 33,000,000 ounces.

It is, of course, probable that world production of commodities has been so disturbed that after recovery has occurred the former rate of increase will not be resumed for some time, but if pre-war relationships were to hold, the present gold production would be expected to result in a price decline of about 1 percent per year after prices were adjusted to the gold supply. In any event, the present rate of gold production would not be expected to cause gold to lose in its exchange value for commodities after this value comes into adjustment with present gold stocks.

Gold production for 1932 is estimated at 23,718,000 ounces,⁶ or only 5 percent greater than the output 20 years previous. So far as can be learned by consulting engineers in the gold-mining field, there is nothing in the known gold fields to call for any phenomenal increase in production.

In spite of the unemployed who have gone to gold mining and the highest exchange value of gold for commodities that has occurred since England adopted the gold standard, more than a century ago, the gold output for 1933 promises to be no more than the output for last year.

The present high price of gold in nearly all countries and the high exchange value of gold for commodities are stimulating the search for gold and may result in gold discoveries, but there is no assurance as to the number of years or decades that may be required. There is an increase in the working⁷ of low-grade ores, but the output from such sources is limited.

A distinction should be made between the stimulus that arises from a high price for gold and from a high exchange value for commodities. The former will gradually wear off, but the latter is a continuing force so long as gold has a high exchange value for other things.

The world is dealing with an acute situation that must be met in months, not decades. Over a long period of time production is a very important consideration, but probable variations in gold production are of small consequence when considering the next few years.

⁴ Warren, G. F., and Pearson, F. A., Prices, p. 105, 1933.

⁵ Warren, G. F., and Pearson, F. A., the Physical Volume of Production in the United States, Cornell University Agricultural Experiment Station, Memoir 144, November 1932, p. 22.

⁶ Warren, G. F., and Pearson, F. A., Prices, p. 47, 1933.

⁷ Gold Production, Federal Reserve Bulletin, vol. 19, no. 11, p. 694, November 1933.

INDUSTRIAL USES OF GOLD

During the 70-year period before the war, the world use of gold for other than monetary purposes increased nearly as rapidly as the use of other basic commodities. In a period when gold had a high exchange value for commodities, the use in industry was checked. In the 70-year period nearly 56 percent of the production was added to monetary stocks.⁷ In the 5-year period before the war 53 percent of the production was added to monetary stocks.

MONETARY DEMAND FOR GOLD

There appears to be no escape from the conclusion that prices in pre-war gold currencies cannot be expected to be higher than pre-war unless this situation is brought about by some unusual and spectacular decrease in the demand for monetary gold relative to business. This is the real problem on the gold side of the price question.

It is, of course, possible that some important countries will definitely discontinue the use of gold as money and definitely discontinue their efforts to maintain gold reserves. This might be done by the remonetization of silver or the adoption of a paper standard. While there is discussion of continuing off-gold, there is as yet no indication of any discontinuance of the demand for gold by any important country. In fact, gold is the most popular subject of discussion in nearly every country.

It is also proposed that coinage be discontinued and that gold be kept in bars that are so costly as to make it difficult to own one, and that these bars be used only in international transactions. Discontinuance of coinage is probably desirable and provision should be made for preventing a run on the gold supply, but too much should not be expected from this. Gold must be released for industrial uses and it will be difficult to have all the second-hand gold returned to the mint, difficult to compel the turning in of all new gold, difficult to prevent persons from following the age-old tradition of purchasing jewelry and plate as a storehouse of wealth. Nations and individuals desire some concentrated nonperishable product which they can hold. It is true that this desire is less prevalent in America, but by this fact there is less to be gained by trying to overcome it. In the more prosperous countries, savings are more likely to be invested in homes, savings banks, bonds, and life insurance; but a large part of the world's population still desires to store its savings in precious metals. It is probable that after such a period of monetary chaos as the world has recently experienced, nations and individuals will bid more vigorously for the privilege of having gold. At the present time, the world looks on France and the United States as the champion hoarders.

Nations have experienced war as well as monetary chaos. They found their metallic reserves to be of great value for war purposes. It is highly probable that the desire to build up these reserves will continue to be very keen.

There are many factors tending to cause inefficiency in the use of gold. Many communities are without banks. It will take time to establish these. Many individuals have lost their savings in banks, and may prefer to be their own bankers. Charges for the use of checks and discontinuance of the payment of interest on deposits check the growth of the use of banks. For some years, bankers will favor the maintenance of high bank reserves. All these things point to a probable check in the former rate of expansion of bank credit per dollar of gold.

For many years before the war there was a steady growth of bank credit per dollar of gold in the United States and a steady decline in the monetary circulation per dollar of gold. The sum of the two showed a gradual increase. For the 5 years preceding the establishment of the Federal Reserve System, monetary circulation and bank deposits per dollar of gold averaged \$11.01. For the 5 years 1923 to 1927, the average was \$11.56. In 1920, the over-expansion of credit brought the figure to \$14.92 and in 1929 it reached \$13.39. Apparently, it is unsafe to build up too great a pyramid of credit. Credit as well as paper money may be flat.

The arguments that are now used to indicate that the gold supply is sufficient to restore the price level are the same arguments that were used to indicate that prices in gold would not fall.

⁷ Warren, G. F., and Pearson, F. A., *Prices*, p. 101, 1933.

WHY WERE PRICES HIGH?

We find no statistical basis in efficiency in the use of gold or in the world supply of gold to call for prices above pre-war in the period from 1914 to 1929. Why then were prices so high? Apparently, the reason for this was low demand for gold. On this point, there is an interesting historical parallel.

When the French Revolution broke out, France drifted into paper inflation. The wild inflation of this period frequently has been described.⁵ The influence on prices in other countries is less well known. Being no longer in demand for monetary uses, both gold and silver lost value and drifted elsewhere. Prices on a metallic basis rose 46 percent from 1790 to 1795 in the United States and rose 34 percent in England. Ultimately a large part of Europe was involved, and prices in the United States and England rose still higher.

The United States was off the metallic standard for a short period during the War of 1812, but the currency returned to par in March 1817. Prices remained more than 50 percent above the level of 1790 until England attempted to return to the gold standard, a process which was completed in 1821. Prices in both countries fell precipitously nearly to the price level of 1790.

In the similar situation this time, the continent of Europe discontinued bidding actively for gold, and prices of commodities in the United States more than doubled. They remained at 40 to 50 percent above pre-war until England, France, and other countries returned to the gold standard.

There is one significant difference. In the Napoleonic war period, Europe used both gold and silver as money, and prices in neutral countries in both gold and silver rose.

In the World War period, only gold-using countries were involved and only gold-using countries had inflation and deflation. Prices in China continued their long-time gradual upward course. They showed no indication of the inflation of 1920. They rose rapidly from 1922 to 1931. Since that time, they have fallen nearly to the 1926 level. The writers believe that the major factor in the rise in prices was the reduced demand for monetary gold and that the major factor in the decline in prices was the return of demand.

Merely being off the gold standard does not necessarily mean low demand. Thirty-four countries are off the gold standard now, but most of them are vigorous bidders for gold. Europe was not actively bidding for gold during the war period.

The writers * have anticipated that gold would acquire more than its pre-war value with the attempts to return to the gold standard, and for 15 years have been stating the conclusion that prices would return to pre-war or lower. The arguments now being presented to indicate that a given quantity of gold with a given volume of business can support a price level 50 percent higher than the same gold would have supported before the war, are the same arguments that were used to indicate that prices would not fall. We think them equally unsound in both cases.

The conclusion so frequently stated in the past we believe still holds—that provided the former gold-using world returns to the gold standard, prices expressed in any pre-war gold currency will be below pre-war for the next decade or longer, unless unforeseen phenomenal gold discoveries are made.

PRICES IN VARIOUS COUNTRIES

Prices for August in various countries are shown in table 4, which is reproduced at the beginning of this hearing. There are great differences in the commodities included and weights used in the various index numbers. In spite of this fact the prices expressed in pre-war gold currencies show a high degree of similarity except for the German index. While the German currency is ostensibly kept at par, the operation with "stalled marks" undoubtedly influences prices.

Prices of basic commodities in various countries are shown in figure 3, which is reproduced at the beginning of this testimony. Prices declined with great rapidity from 1929 to 1932. Since December 1931 the decline has been less rapid. Basic commodities throughout the world are about two thirds of pre-war prices, or less than half the prices of 1926.

⁵ White, A. D.: *Fiat Money Inflation in France. How It Came, What It Brought, and How It Ended*, April 1876.

* Warren, G. F., and Pearson, F. A. *Prices*, pp. 117-125.

SAUERBECK-STATIST INDEX NUMBERS IN ENGLAND AND IN THE UNITED STATES

The only important index numbers in other countries that are approximately comparable with the United States Bureau of Labor Statistics all-commodity index are those for Germany and Canada. All other important index numbers are more heavily weighted with basic commodities. Over a long period of time a basic index agrees very closely with the Bureau of Labor index of 784 commodities, but when sudden movements occur the differences are great. For example, an index for 30 basic commodities in the United States and the United States Bureau of Labor Statistics all-commodity index were identical for the years 1891, 1913, and 1926. Last February the index of 30 basic commodities fell to 66, whereas the United States Bureau of Labor index stood at 87 when the 5 years before the war is called 100.

A serious error is made by comparing a British index of basic prices with the United States Bureau of Labor index of all commodities. In order to obtain index numbers as nearly comparable as possible, an index number was prepared similar to the Sauerbeck-Statist index, except that the weight given to flax fiber in the English index was added to cotton in the United States and cottonseed oil was substituted for palm oil. The results are shown in figures 1 and 2 and in tables 7 to 9.

In 1926 the English index stood at 148 and the United States index at 146, when 1913 was 100. The latter figure was the same as the Bureau of Labor index when 1910-14 equals 100.

The English and United States index numbers were identical for the years 1928 and 1930. After England left the gold standard her prices were fairly stable, but the rapid decline continued in the United States. In February 1933 the English index stood at 91 and the United States index at 69. By July 1933 both index numbers were at 96 and have since continued approximately alike.

Prices in gold in the two countries have at all times been in approximate agreement. By having her currency depreciate in gold as the commodity value of gold rose England maintained a stable price level. By depreciation of the gold value of the dollar in 1933 prices in the United States rapidly rose to the English level, although prices in gold were nearly stable or showed a slight tendency to decline.

The influence of raising the price of gold on basic commodity prices depends on whether the amount of gold required to buy commodities is changing.

1. If a country raises the buying price of gold at about the same rate as the gold value of basic commodities falls, it will maintain approximately stable commodity prices. This was the experience of England, Sweden, and many other countries for about 2 years.

2. If a country raises the buying price of gold at a time when the gold value of basic commodities is stable, prices will rise in proportion to the advance in the price of gold. This has been the experience of the United States for about 6 months.

TABLE 7.—*Sauerbeck-Statist index of wholesale prices for the United Kingdom 1924-33*¹

[Prices in currency 1913=100]

	January	February	March	April	May	June	July	August	September	October	November	December	Year
1924	161	163	161	161	160	160	163	162	167	172	171	174	164
1925	170	168	165	162	160	154	158	158	156	153	156	153	160
1926	152	150	148	148	148	147	148	149	151	154	154	146	148
1927	145	146	145	145	146	145	144	144	143	142	143	143	144
1928	142	142	145	148	148	144	142	139	137	137	139	139	141
1929	138	141	142	137	133	133	136	134	132	131	127	128	135
1930	125	123	121	119	116	113	111	108	107	106	104	102	114
1931	101	101	101	99	97	97	94	93	95	97	98	100	98
1932	100	102	99	97	94	91	93	95	95	92	92	91	94
1933	92	91	91	92	95	96	96	96	95	95	93		

¹ To convert from the 1867-77 base to the 1913 base, multiply by 1.178471.

TABLE 8.—*Sauerbeck-Statist index of wholesale prices for the United Kingdom, 1924-33*

[Prices in gold 1913=100]

	January	February	March	April	May	June	July	August	September	October	November	December	Year
1924.....	161	163	161	161	160	160	163	162	167	172	171	174	164
1925.....	170	168	165	162	160	154	158	158	156	163	156	153	160
1926.....	152	150	148	148	148	147	148	149	151	154	154	146	148
1927.....	145	146	145	145	145	146	145	144	144	143	142	143	144
1928.....	142	142	145	148	148	144	142	139	137	137	139	139	141
1929.....	138	141	142	137	133	133	136	134	132	131	127	128	135
1930.....	125	123	121	119	116	113	111	108	107	106	104	102	114
1931.....	101	101	101	99	97	97	94	93	88	78	75	69	91
1932.....	71	72	74	75	71	68	68	68	68	64	62	61	68
1933.....	64	64	64	65	65	67	66	65	61	59	61	-----	-----

TABLE 9.—*Sauerbeck-Statist index of wholesale prices for the United States, 1924-33*

[Prices in currency 1913=100]

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1924.....	143	146	144	141	139	137	141	144	141	144	149	155	144
1925.....	160	158	157	151	149	149	151	153	153	153	156	165	154
1926.....	156	154	149	149	147	145	145	142	142	139	139	139	146
1927.....	138	137	138	138	138	139	140	141	140	140	139	139	139
1928.....	141	140	142	144	146	142	142	138	139	137	137	138	141
1929.....	140	139	140	138	134	133	138	138	139	136	133	131	136
1930.....	130	126	123	122	119	115	110	109	107	104	102	100	114
1931.....	99	97	97	95	91	89	90	87	85	83	84	81	90
1932.....	80	79	78	75	72	70	72	74	75	72	71	70	74
1933.....	70	69	70	73	81	88	96	94	94	93	94	-----	-----
1933 ¹	70	69	70	70	69	72	69	69	63	68	59	-----	-----

¹ For details of construction: Sauerbeck-Statist index of commodity prices for the United Kingdom and comparable index numbers for the United States, *Farm Economics*, p. 1997, November 1933.

² Prices in gold.

NOTE.—The prices used in this calculation of the Sauerbeck-Statist index for the United States were obtained from the reports of the United States Bureau of Labor Statistics and the current data are being supplied through the courtesy of Dr. Isador Rubin.

3. If a country raises the buying price of gold at a time when the gold value of basic commodities is rising, the price of commodities will rise more rapidly than the price of gold advances.

4. If a country lowers the buying price of gold at a time when the gold value of basic commodities is rising, it will increase the rapidity of the decline in commodity prices.

Whenever prices change, prices of manufactured goods move slowly. Therefore, an index number like the United States Bureau of Labor index always lags behind any force that causes price changes.

ARRESTED DEFLATION, REFLATION, INFLATION

In all price comparisons, distinction should be made in these three situations. The action of England in 1931 stopped deflation.

In the United States the condition last spring was one of incomplete deflation. Prices of some manufactured goods, some salaries, freight rates, and utility charges had declined very little. The "Sauerbeck-Statist" index for the United States stood at 47 percent of the 1926 level, whereas the Bureau of Labor index was 60 percent of the 1926 index. Had deflation continued, these two index numbers would ultimately have come together. Reflation does not call for an equal rise in the two index numbers. Any force tending to raise prices would first have to overcome the unadjusted part of the prospective decline in the all-commodity index of the United States Bureau of Labor Statistics. A restoration of prices causes an approach to equilibrium in the price structure.

If at the beginning of a price rise, prices of basic commodities, manufactured goods, and freight rates were in approximate equilibrium, a rise in prices

would bring about the usual maladjustments resulting from inflation. If deflation were carried beyond the point at which prices reach an approximate equilibrium, the price structure characteristic of inflation would appear.

TABLE 10.—Index numbers of prices of 15 commodities in England and the United States, Oct. 16 to Dec. 15, 1933

[October 21=100.]¹

	Prices in currency		Prices of gold		Prices in gold	
	England	United States	England	United States based on the London market	England	United States
October 16	100.1	100.5	100	100	100	101
October 17	99.1	101.7	102	104	97	98
October 18	99.5	101.2	103	102	97	99
October 19	99.3	100.7	101	102	98	99
October 20	99.6	99.9	100	100	100	100
October 21	100.0	100.0	100	100	100	100
October 22	100.2	101.5	101	103	99	99
October 23	100.2	102.5	100	105	100	98
October 24	99.2	104.3	101	106	99	98
October 25	99.2	104.1	102	107	98	97
October 26	99.7	104.5	102	108	98	99
October 27	99.5	104.2	101	105	100	99
October 28	100.6	105.1	102	107	98	98
October 29	100.3	104.7	102	107	98	98
October 30	99.8	104.7	102	107	98	98
October 31	99.7	104.3	103	109	97	96
November 1	99.3	104.5	104	111	95	94
November 2	100.5	105.3	104	111	97	95
November 3	100.3	106.0	103	111	97	95
November 4	99.7	106.7	103	111	97	96
November 5	99.3		101		98	
November 6	99.4	109.4	103	113	97	97
November 7	100.0	110.6	102	115	98	96
November 8	99.7	110.3	101	114	99	97
November 9	100.0	110.4	101	114	99	97
November 10	99.9	111.0	100	115	100	97
November 11	99.5	112.2	100	116	100	97
November 12	98.5	112.2	100	120	99	94
November 13	97.9	113.4	100	117	98	97
November 14	98.2	111.9	100	115	98	97
November 15	98.3	111.7	100	116	98	96
November 16	98.1	111.9	99	116	99	96
November 17	97.9	111.9	99	119	99	94
November 18	97.5	111.3	98	117	99	95
November 19	97.5	110.4	98	114	100	97
November 20	97.4	110.4	98	113	99	98
November 21	98.3	109.7	98	113	100	97
November 22	97.9	108.1	98	110	100	98
November 23	98.1	108.3	98	112	100	97
November 24	98.2	108.4	98	112	100	97
November 25	98.6		97		102	
November 26	98.1	108.7	97	112	101	97
November 27	98.6	108.3	97	111	102	98
November 28	98.1	108.1	97	110	101	98
November 29	98.3	108.9	98	112	100	97
November 30	98.1	108.1	99	112	99	97
December 1	97.7	108.3	98	111	100	98
December 2	97.1	107.8	99	113	98	96
December 3	97.3	108.4	98	111	99	96
December 4	97.8	108.4	99	111	99	98
December 5	97.7	107.6	98	110	100	98
December 6	98.0	107.1	98	109	100	98
December 7	98.3	107.3	98	111	100	97
December 8	97.9	105.2	99	111	99	97
December 9	104	112	103	115	101	97

¹ The index numbers of prices for England include: Cotton, spot, upland, Liverpool; cottonseed oil, refined, Hull; linseed oil, London; linseed plate, Hull; turpentine, London; rubber, October delivery, London; wheat no. 2, Manitoba, Liverpool; copper, standard, spot, London; tin, standard, spot, London; lead, spot, London; silver, in bars, London; tallow, Australia, September-October, Liverpool; cheese, Canadian, new, Liverpool; pork bellies, clear, Liverpool; and lard, spot, Liverpool. The quotations were taken from the Journal of Commerce, New York City. The index numbers of prices for the United States include: Cotton, middling upland; cottonseed oil, December; linseed oil, spot carlots; linseed cake for export; turpentine, carlots; rubber, rib smoked sheets; wheat, no. 2 red; copper, electrolytic; tin, Straits Settlements; lead; silver; tallow, extra, loose; cheese, Wisconsin daisies, fresh; pork bellies, dry, clear, salted, boxed; and lard. The quotations, on New York markets, were taken from the Journal of Commerce and the New York Times. The index is based on the average of 15 relatives.

PRICES SINCE OCTOBER 21

A daily index of prices of 15 commodities in the United Kingdom and for the same commodities in the United States is shown in table 10.

From October 21 to December 15, prices of these 15 commodities fell 2 percent in England, but rose 8 percent in the United States. The price of gold fell 1 percent in England so that commodity prices in gold fell 1 percent. Apparently the world value of gold in exchange for basic commodities has not changed greatly.

Prices in the United States rose 8 percent, whereas the price of gold rose 11 percent,¹⁰ or prices in gold fell 3 percent.

PRICES OF GOLD

The prices of gold in various countries are shown in table 6, which is reproduced at the beginning of this hearing. Throughout the world there is a strong movement to raise the price of gold. A number of the countries off gold have taken definite steps to raise its price.

Thirty-four countries are now off gold and only two are attempting to maintain their pre-war gold currencies. A world-wide movement of this sort cannot be attributed to the acts of any one country. Such a movement must have back of it a driving force which is beyond the power of any nation to stop. The United States was the last of the 34 countries to succumb to this force.

The world gold situation did not arise from a change in the world gold supply relative to world business, but resulted from a change in the world price level in gold compared with the world gold supply. It might be expressed as "too much price" rather than "too little gold." The only possible corrections are to reduce the whole price and debt structure or reduce the gold content of gold currencies. Apparently the gold-using world must follow the latter procedure.

THE FUTURE VALUE OF GOLD

Gold, like every other commodity, has always been unstable in value. The most stable period in the English experience was from 1840 to 1914, but violent fluctuations occurred during this period. From 1840 to 1849 the purchasing power of gold for commodities in England rose 38 percent. From 1849 to 1873 its purchasing power fell 33 percent. From 1873 to 1893 its purchasing power rose 80 percent. From 1893 to 1914 it fell 29 percent.

The value of gold was particularly unstable during the two great European war periods. From 1789 to 1809 its purchasing power fell 46 percent; and from 1809 to 1822 rose 78 percent.

From 1914 to 1920 its purchasing power fell 54 percent; and from 1920 to 1932 rose 220 percent, at which time its exchange value for commodities was the highest in the history of the gold standard in England.

It is to be expected that gold will continue to have a high value for some years. Whether or not this forecast continues to be true, it is practically certain that its value will fluctuate violently. The best that can be expected from the various control measures is to prevent the fluctuation from being as erratic as they might otherwise be.

With 34 countries off gold, and several others that are likely to go off with the scramble to acquire gold; with the possibilities of sudden movement of gold from one country to another; with the great development of foreign investments which at any time may be shifted; with the shift of some of the densely populated countries of Europe from a creditor to a debtor position; and with war uncertainties and desires for gold for military purposes, decided fluctuations in the value of gold are to be expected; and it is to be expected that these fluctuations will be around a high value.

Some Americans think that being on gold regardless of the rate is all that is required. They seem to have forgotten our experience from 1929 to February 1933. To set any figure that is to hold for a generation certainly involves a considerable element of risk, both to our prosperity and to the future of the gold standard. The gold standard might be unable to survive another unsuccessful world attempt to reestablish it. A proposal to provide some method for

¹⁰ Prices of gold for the United States are London prices in dollars because these are the effective prices. They apply when commodities are purchased or sold.

making future necessary changes in the price of gold without the necessity of long years of economic distress and political agitation would seem to be a conservative proposal. If the gold standard is to have a fair chance for survival, it requires some kind of a safety valve.

The CHAIRMAN. Gentlemen of the committee, Dr. Rogers will be before us this afternoon. The committee will now stand in recess until 2:30 p.m.

(Whereupon, at 1:30 p.m. Monday, Jan. 22, 1934, the committee recessed to meet at 2:30 p.m. the same day, at the same place.)

AFTERNOON SESSION

The committee reconvened at 2:30 p.m., upon the expiration of the noon recess.

The CHAIRMAN. The committee will come to order. Dr. Rogers will be heard first.

STATEMENT OF JAMES HARVEY ROGERS, STERLING PROFESSOR OF POLITICAL ECONOMY, YALE UNIVERSITY, AND FELLOW OF PIERSON COLLEGE, PIERSON COLLEGE, NEW HAVEN, CONN.

The CHAIRMAN. Please give your name, Dr. Rogers, and your address and occupation or profession, for the record.

Mr. ROGERS. James Harvey Rogers; Sterling Professor of Political Economy at Yale University, and Fellow of Pierson College; Pierson College, New Haven, Connecticut.

Shall I wait until the photographers are through, Mr. Chairman?

The CHAIRMAN. Yes; they will be through shortly.

Mr. ROGERS. I have never been quite clear why a person's likeness becomes public property once the President has asked him to work on certain problems, but apparently that cannot be avoided.

And while I am saying this particularly disagreeable thing, as I have many to say this afternoon, I should like to make one further remark. Then I will go into what I have to read. That is, there is a law on the statute books in France to this effect, that whenever the press misquotes you they must in succeeding issues, in exactly the same type and in exactly the same place, in the same newspapers, report the denial. It seems to me that you could do much to safeguard private American citizens if you could get a similar law in this country.

Senator TOWNSEND. Do you recommend such a law, Dr. Rogers?

Mr. ROGERS. I recommend it very strongly.

The CHAIRMAN. If they get your picture, though, they do not have to correct that.

Mr. ROGERS. No; that is right.

The CHAIRMAN. All right, Doctor; will you proceed in your own way? And I suggest to the committee that we wait until he finishes his regular statement and then ask questions if you desire afterward. You can save time, and we must save time.

Mr. ROGERS. Mr. Chairman and gentlemen of the committee, I have a very brief statement which I should like to read. I shall promise you that it will take me a very short time indeed. It

is an attempt to review the recent money policy which has led into the proposal of this bill as an economic measure.

As I see it, I am supposed to appear before you to discuss primarily economic questions. On other questions I have, so far as I know, no competence any more than anyone else. I hope that I have some competence on these questions. I shall proceed to read this statement.

Besides increasing the world's monetary gold stock, raising the price of gold exerts two major economic influences:

1. It depresses the dollar on the foreign exchange markets of the world. That is what we have had so far.

2. It creates a profit the utilization of which constitutes a direct inflationary influence of first magnitude.

To date the stimulus received from the recent money policy has sprung largely from the first of these influences—that is, from the depression of the dollar in the foreign-exchange markets of the world—and, as was anticipated, the resulting price rises appeared first among the basic raw materials with international markets. Only gradually are these rises spreading to other parts of our domestic price structure.

From the second of these influences—that is, this gold profit which will be created when and if we get devaluation—the utilization of the gold profit, the stimulus is still held in reserve. From it much is to be anticipated once the profit is realized through the determination of at least the minimum limit of devaluation, *and is used*. It has to be used before you are going to get the benefit from it.

Specifically, its action is as follows: Literally out of thin air does such a profit appear. Suddenly the Government finds itself in the possession of entirely new funds, which have come from no one and have to be returned to no one. Hence, their expenditure, just as that of newly created greenbacks, is in the first instance purely inflationary. In other words, entirely new purchasing power is added to that already in existence and is pitted against existing supplies of commodities and securities.

However, the secondary inflationary effect of the use of such funds, because potentially much larger, is correspondingly more far-reaching. Once paid out, these new funds, whatever their form—whether new notes, gold certificates, or simply a Government deposit in the Federal Reserve banks—flow to the reserves of the commercial banks. Here they provide the base for a loan and deposit expansion of 4 to 10 times their own magnitude. In a word, they swell the lending capacity of our banking system just as would a like expansion of Federal Reserve credit.

One major difference, however, making such funds more effective than Federal Reserve "open-market" purchases, is of prime importance. When a Federal Reserve bank buys bills or securities on the "open market", new funds to the amount of the purchase are thus added to the reserves of the commercial banks. By selling the same amount of securities, however, such new funds can at any time be immediately withdrawn. When, on the other hand, the expansion of member bank reserves results from the utilization of the gold profit, there is no corresponding accumulation of bills or of securities which the Federal Reserve banks may at any time sell. Only, therefore, to

the extent of their earlier accumulations of such "earning assets" can our central banking institutions counteract the inflationary effect of the new excess reserves created from the gold profit.

At the present time the total "earning assets" of the Federal Reserve banks amount to approximately $2\frac{1}{2}$ billion dollars. I am using approximate figures just to make the arithmetic simple, sir. While, theoretically, all of these might be disposed of in order to withdraw excess reserves from the banks, practically only about 2 billions could be so used. Hence, of the gold profit, the use in excess of 2 billions would provide an inflationary influence uncounteractable by Federal Reserve action.

The significance of such an uncounteractable inflationary influence is apparently great, indeed. Suppose, to take an extreme case, that 3 billions of gold profit were paid out and thus flowed to the excess reserves of the banks. To the already existing 750 millions of these excess reserves, that figures should be modified if you take account of the actual existing excess reserves now, which are naturally high because this is a dull season. Unless you do something with them in the meantime they would naturally tend to fall to around three quarters of a billion again, with the spring expansion which may be anticipated. I say, to the already existing 750 millions of these excess reserves, plus those to be derived from probable gold inflows, probably small, would be added around 3 billions more; that is, the gold profit. Of the minimum total of 3 billion 750 millions, only 2 billions could be counteracted by Federal Reserve action. That is the 2 billion of earning assets that they could dispose of for the purpose. The remaining 1 billion 750 millions, providing the nonwithdrawable base for a loan and deposit expansion of at least 7 billions, and more likely one of 17 billions, would give to the well-informed almost complete assurance of early uncontrollable credit expansion, and hence of a great and continued price rise over a period of months. Such an incentive to immediate buying could hardly be resisted. The resultant new purchases, when added to those already currently stimulated by large and growing expenditures for public and civil works, could not help but give a further proportionate boost to business, as well as to rising prices. In other words, there is the inflationary influence, and the question is, Do you want it or not?

Evidently, therefore, the extent of the gold profit and of its utilization should be determined according to the amount of such uncontrolled inflation desired.

One further difference between the results to be anticipated from the two major economic influences of the gold policy is of great importance. While depressing the dollar exchange rates has its chief effect on the prices of international products, the expenditure of the gold profit acts primarily on domestic business and prices. Ideally, therefore, the time and the extent of the use of each should be largely influenced by which impact is desired.

Now, in just a brief summary, as an economic measure the bill before you provides, among other things—of course, this is not complete:

First, a low gold value of the dollar, once devaluation is accomplished; second, increased definiteness as to the range of fluctuations in the gold value of the devalued dollar; third, a large gold profit,

with potential inflationary influence, once devaluation is accomplished; fourth, ample control over the use of this profit, so that any resulting inflation can be restricted.

That is all, gentlemen, of my statement.

The CHAIRMAN. Any questions?

Senator COUZENS. I would like to ask Professor Rogers if he has any figures or facts there to indicate what the effect was on the prices in France, for example, when they devaluated the currency.

Mr. ROGERS. The French devaluation came after a long period of inflation, which began at the beginning of the war, so that the devaluation, coming at the end instead of the beginning, is not comparable with our own. Of course, this much can be said, that in the end they had a price level of about five times what it was before the whole inflation which ended in devaluation, occurred.

Senator COUZENS. Then in effect I understand that because of those incidents there was no price rise when the devaluation took place; the price rise took place before the devaluation, is that it?

Mr. ROGERS. There was a price rise, but a comparatively slow price rise, Senator, which came after that. It turned out that the gold value of the franc was set pretty low, and over a period of years, roughly 3 years, while the prices in other parts of the gold standard world were tending downward those in France were tending mildly upward.

Senator COUZENS. Can you give us the experience of any other country outside of France?

Mr. ROGERS. Not in detail, because I did not bring the figures here.

Senator COUZENS. Well, roughly?

Mr. ROGERS. Roughly you can say that, after the Austrian Government stabilized—and that of course was a very severe case of inflation—we found that there was a tremendous stimulus to business which came a short time after the stabilization, coming, I think, primarily from the return flow of Austrian funds, and also from the flow of foreign funds into Austria, to take advantage of what seemed to be very excellent business opportunities of one sort or another. But as to the price indexes, I simply do not have the data with me, Senator. I am sorry.

Senator COUZENS. So your conviction is that when and if we do devalue there will be a substantial price rise domestically?

Mr. ROGERS. I think that it will come, Senator. I do not think there is anybody in the world that can answer that dogmatically, but I should expect that if we have our money system controlled with reasonable care that a rise would come certainly over a period of 6 months or probably a year. That would be my anticipation, but, as I say, a dogmatic answer is impossible.

Senator COUZENS. What was Italy's experience when she devaluated?

Mr. ROGERS. I cannot give the price experience of Italy. I have never made a study of it.

Senator COUZENS. That is all, Mr. Chairman, I have.

Senator BULKLEY. Did you express the opinion that this bill contains adequate measures for controlling the potential inflation?

Mr. ROGERS. I did express that opinion. Of course, that is based on this assumption, Senator, that we want a considerable price rise from the present one. You see, it depends on the figure at which the devaluation takes place. I think if we should devalue at the present time down to 50 cents and impounded only, perhaps, 2 billion of it into the equalization fund—or stabilization fund, as the bill calls it—we might carry that price rise too far before these controls came in.

Senator BULKLEY. And what control is there in the bill against that?

Mr. ROGERS. The control in the bill is largely in the equalization fund. You see, the equalization fund is made available temporarily, while we are in this crisis condition, to be used to any extent necessary for stabilizing or for controlling the value of the dollar in the foreign-exchange markets of the world. It is provided, however, that it cannot be used for other purposes except with the approval of the President, which I think is very important. In other words, that fund must not be invested in Government securities except with the consent of the President, because it does influence our money system very greatly if you do it.

Senator BULKLEY. What if you bought foreign exchange? Wouldn't that result in the building up of reserves of the member banks?

Mr. ROGERS. Quite right, Senator. And if it required the investment of that whole 2 billion, temporarily you would get the excess reserves of the bank likewise built up. It is inconceivable to me, however, that you would use a large portion of that in the bill, though it is conceivable—I mean it is possible—and to the extent that you use it for that purpose or for any other purpose it will build up those excess reserves.

Senator BULKLEY. The control as you see it, then, is entirely with the Secretary of the Treasury?

Mr. ROGERS. The control for that particular purpose is for the Secretary of the Treasury, but for the other purposes it is under the control of the President.

Senator GLASS. In other words, it may be used for anything that the President desires?

Mr. ROGERS. No; I don't think so, Senator.

Senator GLASS. Why not?

Mr. ROGERS. It is specifically——

Senator GLASS (interposing). The bill as it first came here expressly provided that in terms they could rediscount, buy bills of exchange, and do anything.

Senator COUZENS. That has not been changed.

Senator BARKLEY. For the purpose of regulating the exchange value of the dollar.

Senator GLASS. It has not been changed in fact, but it has definitely been changed in phraseology.

Senator COUZENS. It is just made a basket clause instead of enumerating the items; that is all.

Senator GLASS. Yes.

Senator GORE. Doctor, of course, we all know that France cut the franc down to about one fifth of its normal gold content. Now you say that that resulted in prices in the long run increasing about fivefold?

Mr. ROGERS. Roughly; yes, Senator.

Senator GORE. And you would anticipate a similar result in the course of time here if we devaluated on the basis of 50 cents, cut out 50 cents of the dollar; that that would practically double prices in the course of time?

Mr. ROGERS. Well, it is very difficult indeed to say, Senator.

Senator GORE. I know it is.

Mr. ROGERS. I say that roughly it might do it over a period of time, but there are so many other things—

Senator GORE. I understand that.

Mr. ROGERS (continuing). That might happen in the meantime, as in any other sort of situation.

Senator GORE. You would expect the wages and salaries to lag but ultimately to come up abreast?

Mr. ROGERS. That is the usual way in which it has occurred in the past, Senator, though of course there is much else in our recovery measures which is operating directly on wages and perhaps on salaries, and those elements may have an effect which you cannot anticipate.

Senator GORE. If it had that effect, all the Governments, municipal, State, and national, would double salaries and the cost of supplies they required would be doubled in price. That then would result in doubling of taxation, would it not, in every city, school district, State and county, if your theory held true? It would double taxation?

Mr. ROGERS. I do not know just what theory you are referring to.

Senator GORE. What I have in mind is, I understood you to say that if you cut the dollar half in two it would double prices sooner or later or would tend to do that.

Mr. ROGERS. I did not say that, Senator; I said that in the long run and in the absence of other influences—and they will not be absent—it might be anticipated.

Senator GORE. All right. In the long run and in the absence of counteracting influences, then taxes would be doubled, would they not?

Mr. ROGERS. I should say in the long run and in the absence of all the things that you suggest; yes.

Senator GORE. Yes; school districts, counties, States, and Nation.

Senator COUZENS. Professor, I think there is a misunderstanding, if I understand your answer to Senator Gore, and that is that there are a lot of articles used in the form of service and living cost which have not gone down in this depression, and that they would not necessarily go up to double the cost, as indicated by the Senator from Oklahoma.

Senator GORE. There would not be an exact doubling, of course. The reverse would be corresponding to what has happened.

Mr. ROGERS. May I say a word? Of course, the "long run" gives us a long time for all things to happen, Senator.

Senator GORE. Yes.

Mr. ROGERS. And, as I was going to remark, we are all dead by that time, and it is the short term of affairs that we are most interested in.

Senator GORE. Yes; I think that is probably true. One other question: We are increasing the indebtedness of the United States during the current depression something like 15 billions. This enhancement of prices would cut the old debts in two, but these debts being contracted now when prices are down and money is up, would be doubled when this plan gets under way, would they not? So that the 15-billion increase in indebtedness would really amount to 30 billion?

Mr. ROGERS. Debts that are being made now will be paid off very easily, of course, if you assume what you are assuming, a doubling of the price level with a reasonable volume of business. Prices are only half of the story.

Senator GORE. The total taxation of the country for all purposes is about 15 billions. So you figure that would be doubled in the long run?

Mr. ROGERS. Oh, well, of course there is a great accumulation of taxes which could be paid off more easily, of course, and I should say in the long run, with many hypotheses involved, that you might expect that taxes might be doubled too.

Senator BARKLEY. Well, as a matter of fact, would that mean that the number of dollars that any given property owner would pay would be doubled?

Mr. ROGERS. No.

Senator BARKLEY. There would be no change, and there has been no appreciable decrease in local taxation during the period in which prices have gone down and the depression has endured, has there?

Mr. ROGERS. You are asking me questions in a field in which I haven't the figures.

Senator BARKLEY. There has been some lowering in the valuation of property, but I do not recall that there has been any serious reduction in local tax rates anywhere in the United States.

Mr. ROGERS. Well, I know, Senator, that my taxes have not gone down appreciably.

Senator BARKLEY. Of course, the man who owes a given amount of taxes on a piece of property that he might pay in the present dollar, after devaluation would pay the same number of dollars in taxes that he pays now unless there was a different basis of assessment. That money would go into the treasury of the city. It would pay the mayor or the chief of police or all the city employees the same number of dollars they draw now. That would not involve any increase in taxation or any doubling of taxation. It might work out that that chief of police, in purchasing things for himself with those dollars that he got, might find that they did not purchase as much in the immediate future as the old dollar did. After a while doesn't that actually adjust itself by a process of drawing together of income and of expense and the economic situation that prevails on the average throughout the country over a period of years?

Mr. ROGERS. If we can get a rise in prices, Senator, with a good volume of business, it certainly will help clear the debt as well as the tax situation in the future.

Senator BANKHEAD. When you speak of the taxes being doubled you speak of the volume of taxes being collected, do you not, as a result of the accelerated business, by increase in income taxes, and that sort of thing, rather than a specific increase in tax on specific property?

Mr. ROGERS. Yes; I meant to be talking about the total rather than about the rates. Once you can get an increase in volume of business and increase in incomes throughout the country, I think that the taxes will come in in pretty large volume.

Senator GORE. But if you double salaries, as your plan contemplates, and double the price of things that the Government buys, you have got to have twice as many dollars to do it, and the taxpayer has got to pay into the Treasury twice as many dollars as he did before.

Mr. ROGERS. Yes, Senator. You are getting into the long run, which is a very long run for that particular hypothesis.

Senator KEAN. Professor, suppose you are a city and you assess your taxes on the 1st day of December. They are payable in, say, June and December of the following year. In the meantime everything has gone up. Where does the city get off?

Mr. ROGERS. The city will find that its expenses have gone up, of course, but as was pointed out by one of the other Senators, if you get a considerable volume of business at a considerably increased level of prices, you will find that your taxes not only will be collected but will be collected in larger amounts; I mean a larger tax with the same rates.

Senator KEAN. Yes; but during that period the city has lost so much money, hasn't it?

Mr. ROGERS. The city's expenses will go up with the expenses and the prices of the things it has to buy.

Senator KEAN. The taxes for that year will remain the same?

Mr. ROGERS. The rates will remain the same, Senator, but the total tax may be very much increased. The situation as it is now, as I understand it, although I am not a tax expert, is that the difficulty is to collect the taxes; that people simply do not have the income to pay the taxes. Those taxes will begin to be collected if you give them some income again, and such things as income taxes will increase very greatly and according to the increase in incomes.

Senator CAREY. How will this increase the income?

Mr. ROGERS. Well, of course, that is a very long story and involves many assumptions. I do not think we can be entirely dogmatic about that, as I said in the beginning. The experience in other countries is this—and also in this country: Generally, when you get a rising price level over a period of time, the volume of business likewise increases, so that you get a greater volume of business at a higher price level. The total income of the American people derived from business is the product of the prices at which business is done and the volume of business that is done. That is all we have from business, all of us. Out of that is paid wages, salaries, interest, rent, everything—profits. And if we can only do something to increase prices and at the same time increase the volume of business, then we have accomplished that increase in incomes. I think that this bill is moving in that direction, though, as I say, we cannot be dogmatic.

Senator CAREY. Professor, don't you just have two 50-cent pieces instead of a dollar? That is what it looks like to me.

Mr. ROGERS. I think most of the public would not notice the difference, Senator. They will have dollars in their pockets, nickels and dimes, and the same sort of money that they have at present. It is probably true that we will get a gradually rising price level over a period of months and years and a gradually rising volume of business.

Senator GORE. But a grain of gold for the short run, as you say, will not buy anything more than it did before?

Mr. ROGERS. I did not say that, Senator.

Senator GORE. I said that.

Mr. ROGERS. A moment ago I was not talking about gold; I was talking about dollars at that time.

Senator GLASS. Those who have not long to live will have to pay the piper, and you fellows that have a long time to live may make something out of it.

Senator BARKLEY. But just look at the fun you have had over your 75 years.

Senator GLASS. I am having some more. I want to have some right now.

Doctor, let me ask you this question: Of course, you are very intimately acquainted with the mechanism of the Federal Reserve System and of the business activities of the Federal Reserve banks?

Mr. ROGERS. I am somewhat acquainted with them; yes, sir.

Senator GLASS. And then, referring to section 10 of the bill, open-market transactions require tested and seasoned banking experience, I would think. Do you agree to that?

Mr. ROGERS. Well, I think banking experience is of value; yes, sir.

Senator GLASS. Well, isn't it essential to intelligent open-market transactions, and particularly to foreign-exchange transactions?

Mr. ROGERS. I should hope that the people determining on open-market operations should have banking experience as well as an understanding of the operations of our money systems and foreign banking systems.

Senator GLASS. Yes. Well, that being so, do you think it is wise to transfer that authority to the Secretary of the Treasury, who, in this particular instance, if I am correctly informed, has never had any banking experience at all?

Mr. ROGERS. I do not understand the bill to read that we are transferring that authority to the Secretary of the Treasury.

Senator GLASS. Then you are duplicating it, are you not, one or the other, sir?

Mr. ROGERS. There is no question that in this equalization fund, or stabilization fund as it is called, there is a reserve power in the hands of the Treasury, Secretary of the Treasury, with the approval of the President, notice—only with the approval of the President, after the present emergency is over and we cease to need it for a stabilization fund, I mean stabilization for use of foreign exchange.

And that fund is of extreme importance. It has this importance: In the first case, we can impound this gold profit, and it is very important to impound it over the future. Otherwise, if it is

grabbed by the Treasury and used to pay bills of the ordinary sort, we might over-expand our price structure. As I understand the bill, this fund is specifically guarded so as to be impounded and to be available, except temporarily, only on the approval of the President.

Senator BULKLEY. Can any use of it be made whatever that does not increase the reserves of Federal banks?

Mr. ROGERS. None whatever.

Senator BARKLEY. Doctor, did you, before I came in, give the results of devaluation in France and the picture of the French situation? If you did, I do not want you to do it over.

Senator COUZENS. Yes. I asked him about all the countries, Senator, and he gave it for some of them.

Senator GLASS. You asked him about the process of devaluation. You asked him what effect it had upon groups of population.

Senator COUZENS. Yes. The Professor gave the ones with which he was familiar, including his observations with respect to France; and with respect to Italy and other countries he had no chart, he said.

Senator TOWNSEND. I do not think he gave us what effect it had on groups of population.

Senator COUZENS. Groups as represented by nationalities, yes.

Mr. ROGERS. Shall I say anything further on that subject?

Senator WAGNER. How about groups within France?

Mr. ROGERS. Of course, during the long period of credit expansion and inflation which went along during the war period and continued for a number of years after the war, we found active business in France in general as we did in this country during the war period. This active business led, of course, to large profits and to comparatively small purchasing power going to the owners of the bonds and to owners of fixed income of one sort and another. So that there is no question that in that period of inflation the people on fixed incomes suffered very considerably. The returns to the wage earners were moved upward, but usually with something of a lag, but not very much of a one, because business during the war period and through the inflation period was, as in this country, quite active. Does that answer the question that the Senators asked?

Senator GLASS. Yes; I just wanted the record to show that it created great destitution and deprivation and suffering among the wage earners and salaried people in the Nation.

Senator WAGNER. I do not think the Doctor wants to go to that extent.

Senator BARKLEY. I did not understand anything the Doctor said that sounded like that.

Senator WAGNER. That is another witness he is speaking of.

Senator BARKLEY. The same witness he meant from the beginning.

Senator GLASS. Yes; he was very cautious in his description of it, and I was very plain in mine.

The CHAIRMAN. Did you want to ask anything further?

Senator BARKLEY. Not now. I do not know how far he went into the general effect of the French devaluation.

The CHAIRMAN. Are there any other questions?

Senator BARKLEY. Doctor, could you suggest an answer to this question: The propriety and the importance of the Government

itself as the ultimate issuing authority for all money, having permanent control of the basis of that money, regardless of the agency through which it may be issued. For instance, the taking over of the gold by the Treasury and assuming title to it by the Government as a permanent proposition?

Mr. ROGERS. I have not expressed any opinion on that subject, Senator. I do not mind saying what I think of it. I think it is not purely an economic question. I think that the economic system will function just about the same whether they take the gold or whether they do not. I think that it may be important as a question of policy. I feel that the world is in a monetary situation the seriousness of which has not been appreciated by many people in the country. I think that the Government having a good bit of freedom to operate in any international discussions or in any way it may in the near future may be a great advantage, and I am inclined to think that there is a possibility of getting greater freedom of action through this. Economically I think it is of no great importance.

Senator BARKLEY. In other words, economically, so far as the money is impounded, somewhat as the basis of money, it will be used for that purpose?

Mr. ROGERS. I assume so.

Senator BARKLEY. Yes. If it is not used for that purpose it will be diverted to some purpose for which it was not intended. But as a matter of fundamental policy, do you believe or do you not believe that it is wiser in the long run for the Government to actually have possession of title to and control of the basis of currency, since the Government ultimately must stand back of all of it?

Mr. ROGERS. That is another type of question that I feel no particular competence in, Senator. I do feel that we have had a great many disturbances in recent years because of the inclination of the people of this country to hoard gold and likewise a similar inclination in other parts of the world. A great deal, as you know, of our gold has been hoarded, and there has been a tendency of that gold to pass from one side of the Atlantic to the other without much interference, and it seems to me that just to avoid that type of thing in the future this may help. Therefore, I am not opposed to it, and I think in general it will probably turn out to be an advantage.

Senator GORE. I do not want to lead you afield, but do you think the Government ought to be the ultimate authority or that it ought to be left to banking institutions?

Mr. ROGERS. I have no opinion on that at all, Senator.

Senator GORE. I do not want to lead you away from your appropriate field.

Senator WAGNER. Governor Black, when he was before our committee, expressed an apprehension that if this gold were transferred and our money hereafter should be issued against gold certificates instead of the gold itself, it might weaken our money structure. Do you share any such apprehension as that?

Mr. ROGERS. I do not.

Senator TOWNSEND. Do you speak from banking experience in answering that question?

Mr. ROGERS. I have had no banking experience. I have been in contact with bankers for a number of years because I have felt that

it was of great importance as a student of money that I should likewise be a student of banking, as I have attempted to be.

Senator GLASS. I have had experience with bankers, but it was generally in borrowing money.

Senator McADOO. Did you get any?

Senator GLASS. Not very much.

(Witness excused.)

**STATEMENT OF OWEN D. YOUNG, OF GENERAL ELECTRIC CO.,
NEW YORK, N.Y.**

The CHAIRMAN. Mr. Young, you have examined the bill which is before this committee for consideration, including the proposed amendments thereto. We will be very glad to have your views.

Senator McADOO. I think, Mr. Chairman; that Mr. Young might state for the record his connection with the Federal Reserve Bank of New York.

Mr. YOUNG. I think I have served as a director of the Federal Reserve Bank of New York since 1921. During the first half, I should say, of that service I was elected as the representative of the large banks, whatever group that is. Some time, I should say along in 1926 or 1927, I was asked by the Federal Reserve Board to resign my place as the director representing large banks and accept service as the representative of the Federal Reserve Board. That was done, I think, primarily because Mr. Herbert Case, who was then chairman of the committee, was ill, and the Federal Reserve Board wished me to serve as chairman during his illness. They designated me as deputy chairman then, and I have held that office and that designation since.

Senator McADOO. You represent, in other words, Mr. Young, the public interest on the Board? You are one of the so-called "Government directors"?

Mr. YOUNG. Yes, Senator.

The CHAIRMAN. The committee will be very glad to hear your views on the bill and on the proposed amendments thereto.

Mr. YOUNG. Since receiving your message late on Friday evening, Mr. Chairman, I have devoted the two intervening days to a study of the bill to which you refer. I have not had the privilege of hearing any of the witnesses who have appeared here, except Professor Rogers. I have seen the testimony given by Dr. Burgess, Deputy Governor of the Federal Reserve Bank of New York, and I share the views, generally speaking, which he expressed to you.

I am scarcely competent to speak on the definitive provisions of the bill; the time is too short to study them. I can scarcely claim to be an expert in any field, Mr. Chairman. I am neither an economist nor a banker; but the question which I asked myself at once on reading the bill was whether it was a temporary measure to meet an emergency, or whether by it we intended basically to change our whole monetary mechanism and, perhaps, principles, in this country. If it be only temporary, to meet an emergency, my attitude of approach would be not to criticize but to try to support whatever the President and his associates feel they need to rescue us from this depression as an emergency program.

If, however, this is intended to affect our permanent monetary situation, then it needs much more careful consideration; and I should

be sorry to see any legislation passed of that significance under the pressure of an emergency demand.

So my first suggestion would be that it is highly important, I think, to retain this bill throughout as an emergency bill, and then if we need modification of our monetary program and mechanism, we ought to take that up with ample time to give it careful consideration, because, after all, we spent a great many years, Senator Glass, in getting the Reserve act. When passed we adapted, so far as we could, the best there was in the whole monetary experience of the world to our needs. We have had 20 years of experience with the Federal Reserve System. It has made mistakes. All human institutions do. Some of the mistakes are, I think, attributable to the legal set-up; some of them were mistakes of human judgment. The first you can cure; the second will always exist wherever you put your authority. So I would hope that we would not permanently change that system without careful consideration and careful study.

That does not mean that I think that there cannot be great improvements in the Federal Reserve System, and it does not mean that I do not think there are some improvements needed. I think there are, and I think they can be made, and we can make the System function better and guard against some of the mistakes which have been made in the past.

So, to come back to my first point, it is that I hope the legislation contemplated in this bill will be not only considered as emergency legislation, but that it will be designated as such in the bill and that you will fix a time at which the powers under it will be terminated.

I realize that there is great difficulty in fixing a specific calendar time, because we do not know how long the emergency will last. But it does seem to me that the emergency character of the act should be shown and a time limit could be made effective merely by a provision that the President himself might declare when the emergency was over and the powers of this act no longer needed. That puts the responsibility upon the President, which I am sure would be soundly and wisely exercised, and it would save the act from the interpretation of its being permanent legislation in our monetary system, which, as I say, I think would be undesirable.

As to devaluation, Mr. Chairman, I do not think that I wish to express any view here as to the percentage of devaluation. I am assuming that devaluation must take place. I should prefer not to express a view, because the amount of the devaluation is affected very largely by what other countries may do. It may be determined by an international arrangement. It may be determined by one country acting first and others readjusting themselves to the standards set. I feel great hesitancy about expressing any views as to percentage, because the President is faced with the problem of working that out with foreign countries; and even if I had a definite opinion I would hesitate to express it; and having none—because one cannot tell how the circumstances will change—I should prefer not to make any statement regarding it.

I welcome the step, however, toward a legal definition of the gold content of the dollar. I think that certainty is extremely desirable, and perhaps certainty is even more important than the content, assuming that the content be not too far below the present dollar mar-

ket. Certainty is very desirable, and I think it is very necessary to further our economic recovery.

So far as the profit on the gold is concerned, resulting from devaluation, it seems to me there is no question but what it should go to the Government. I know of nobody else who should receive it. As Professor Rogers says, it is a thing taken out of thin air by legislation.

Senator BARKLEY. Sort of a fixation of nitrate?

Mr. YOUNG. Yes; I think so; but it does not take so much physical power.

Senator KEAN. Suppose gold goes back to \$20 an ounce, what would be the effect then?

Mr. YOUNG. You mean the price of the dollar rises?

Senator KEAN. Suppose that gold goes back to \$20 an ounce; what would happen then?

Mr. YOUNG. Then the nitrogen will be evaporated.

It is proposed to transfer the title of the Federal Reserve banks in the gold to the Government. I should say that was quite unnecessary for the purpose of insuring the Government a profit. The gold could be perfectly well left in the Federal Reserve banks and credit established in the bank for the Government to the amount of the profit. I should think it is unnecessary to transfer the title of the gold to the Government to insure that it will not be paid out, or, if paid, that it will be on such terms as the Secretary of the Treasury may from time to time determine. The Reserve banks would comply as they are complying with the regulations of the Secretary of the Treasury governing the payment of gold. I am now speaking all on the assumption, Mr. Chairman, that this bill is of an emergency character with a limited life. Personally, I think it would be wiser, even as an emergency measure, to leave the title to the gold in the Federal Reserve banks.

Senator McADOO. You are speaking now of one half the gold, of course?

Mr. YOUNG. No; I mean all the gold. The bill provides that the title to all the gold owned by the Federal Reserve banks, if I understand it correctly, shall be transferred to the Treasury.

Senator McADOO. I wanted to make clear, if I understood you aright, that your suggestion is, if it is devalued for instance, 50 percent, that the one half of the gold which would then belong to the Federal Reserve banks should be left with them, and they should be given credit for the other half on the books of the Federal Reserve banks?

Mr. YOUNG. Yes; the Government might take the other half of the gold, or it might leave the gold in the Federal Reserve banks and take a credit on the books of the bank for its value.

Personally, I should think it would be wiser, even as an emergency measure, to leave the title to the gold in the Federal Reserve banks, subject to the regulations of the Secretary of the Treasury.

I listened to Professor Rogers. He saw no particular economic advantage, as I understood him, in transferring the title of the gold. He suggested that there might be some practical advantage. I do not know what it is. It seems to me, in a sensitive time like this, when we are trying to rebuild confidence, we should try to accom-

plish our objective with the least disturbance of confidence possible; and I think there may be some impairment of confidence in the transfer of the title of the gold to the Government.

Personally, I am not so much concerned about the transfer of the title of the gold to the Government as I am about the character of the gold certificate which this bill contemplates will be issued to the Federal Reserve bank for the gold. If gold certificates are to be substituted for gold in the Federal Reserve banks, they should, in my judgment, be redeemable at the option of the bank. From the standpoint of public confidence, it would seem better to put a restraint on the use of gold by regulation during the emergency, rather than to suggest by a conditional certificate payable at the option of the Secretary of the Treasury that we might have a permanent currency redeemable in gold only at the option of the Government.

I am opposed, Mr. Chairman, broadly speaking, to an irredeemable currency. I agree that our currency should not be redeemable in gold coin, but I think it should be ultimately redeemable in bullion. It seems to me that we should work toward that kind of a currency; and I mean a currency redeemable in bullion at the option of the holder of the currency, or at least at the option of the central bank and not at the option of the Government. I do not believe that in any other practical way ultimately we can restore stable exchanges and currencies throughout the world; and on that stability rests confidence at home and markets abroad.

I think that the American farmer has a tremendous interest in that question, because I think he should be permitted to raise as much of an agricultural surplus as he can export, and therefore he is deeply interested in the export market.

Now, as to the stabilization fund—am I taking too much time, Mr. Chairman?

The CHAIRMAN. No, indeed.

Mr. YOUNG. As to the stabilization fund, I approve the use of so much of the monetary gold as is here proposed for a stabilization fund. Such a fund should be available for use pending an international arrangement in regard to currencies and so long thereafter as may be necessary to carry out such an arrangement. I should hope and expect, however, that any international arrangement would contemplate the abolition of stabilization funds in the hands of political treasuries in all countries. Normal business cannot go on when exchanges are subject to arbitrary, unknown, and uneconomic interference, an interference unknown as to time or the amount of its use. All equalization funds operate in secret. They must operate in secret. So I am opposed to them as a permanent part of the monetary system of this country or any other country. I think they are a menace to business, to economic welfare, and I think that if they are carried far enough they would be a menace to peace.

Senator McADOO. Do you not think that they are a political menace as well—if I may interrupt you at this point?

Mr. YOUNG. I think undoubtedly they are a political menace.

Senator McADOO. I mean, if controlled by the governments themselves.

Mr. YOUNG. I felt less competent to express a view on that aspect of the matter.

Senator McADOO. But you agree that it may be possible?

Mr. YOUNG. I agree. So much for the stabilization.

Now, as to the use of the gold profit in our domestic market——

Senator WAGNER. May I ask you a question there?

Mr. YOUNG. Yes; surely.

Senator WAGNER. On the question of the equalization fund, is not the same danger implicit in the use by England of such a fund?

Mr. YOUNG. Yes; I think so. What I am saying is, all countries—and I emphasized it.

The CHAIRMAN. I understood that.

Mr. YOUNG. My statement was that I should hope and expect that any international arrangement would contemplate the abolition of stabilization funds in the hands of political treasuries in all countries.

Senator WAGNER. If the other countries persist in its operation, do you suggest that we should desist anyway?

Mr. YOUNG. No; I am in favor of the creation of a stabilization fund. I am in favor of its maintenance until we get an arrangement with other countries; and I am saying that as a part of that arrangement we should insist that they dispose of their stabilization funds, and that we do so.

Senator WAGNER. Thank you.

Senator WALCOTT. You would prefer to have a time limitation on the use of our own?

Mr. YOUNG. Yes; my suggestion as to a time limit applied to the whole bill, including the stabilization fund.

Senator BARKLEY. But would you insist on a time limitation so that ours would automatically, or even by proclamation of the President, be abolished, notwithstanding other countries continued to maintain theirs?

Mr. YOUNG. I would not; but one of the purposes of my suggestion that it be left in the hands of the President is because certainly he would not abolish it, nor would we expect him to, until others had done the same.

Senator McADOO. In order to preserve the emergency feature of this legislation, do you not think that the object in view could be best attained by putting a limitation upon the life of the act, say, for a given period of years, with authority to the President to terminate it at any time in that period that he might think the interests of the country required? It might be as result of an agreement with other nations about their stabilization funds and about stabilization exchange, rather than to leave it wide open and permanent in character until the President shall by proclamation end it?

Mr. YOUNG. Perhaps so, Senator. I have not given any such consideration to that question as I should have in order to answer it.

Senator McADOO. It occurs to me that if it were permanent in character and the President did by proclamation end it, it might be 50 years before a President would end it.

Senator WAGNER. You would have to predict, however, the outside limit of this depression, which is not easy to do.

Senator McADOO. The President can always come back to Congress and get an extension, just as has been done in the case of the Reconstruction Finance Corporation Act and other emergency acts.

Senator BARKLEY. Congress is always on hand to repeal it even though the President did not ask for it and although there is no time limit.

Senator McADOO. You would have to have a two-thirds vote to do that.

Senator BARKLEY. You have to have that on everything.

Senator McADOO. I know; but with emergency legislation it is a difficult proposition.

I apologize, Mr. Young, for interrupting.

Mr. YOUNG. I see no objection to the use of the gold profit for the purchase of Government obligations to the extent that it can be wisely and safely done. It can always be used without risk to our general credit structure for the purchase of Government obligations held by the Federal Reserve banks, because that does not increase the excess reserves in our banking system.

Senator GORE. Repeat that statement, Mr. Young, please. I did not quite understand you.

Mr. YOUNG. The gold profit can always be used without risk to our general credit structure for the purchase of Government obligations held by the Reserve banks, because that purchase does not increase the excess reserves in the banking system.

Senator GLASS. But you do not anticipate that that will be done, do you?

Mr. YOUNG. No; I was confining myself only, Senator, to saying that it might be done and avoid the risk of increasing our excess reserves.

To the extent which the profit may be used elsewhere, the result will be to increase the excess reserves of our banking system by the amount of the profit expended, of course. By it you would cause an expansion of potential volume in our credit currency, which would not be particularly dangerous if the expansion were limited to the 3 or 4 billions of profit on our monetary gold. It may become dangerous, however, when we realize that for every dollar of bank reserves you have a base for credit from 8 to 10 times as large. The expenditure of 3 or 4 billions of gold profit in the market would, if added to the volume of reserves of the country, create a base for an additional credit volume of around 30 to 40 billions. That is true whether the profit is spent for stabilization or for domestic needs. Insofar as the stabilization fund is used to buy gold abroad, the matter is even worse, for the gold that is bought replenishes the fund and therefore you have something like perpetual motion in credit expansion through the use of a stabilization fund.

At the moment there is a great desire on the part of all for an expansion in the use of our currency and credit. That has led many to think that the enlargement of the volume of currency and credit would expand its use. Our experience in the past year does not justify such an assumption. The Federal Reserve has increased the excess reserves of the banks of the country to over 900 million dollars, giving a base for 8 or 9 billions of additional credit; but that credit has lain dormant. Under such circumstances you will say, "Why fear an increase of bank reserves of 3 or 4 billions more?" My answer is that if there were any way of securing adequate contraction and control when such vast funds begin to be used, I would not fear it, but the difficulty is in the control. The Federal

Reserve system has something like two billions of governments now which they could sell in the market and thereby accomplish contraction of credit which might result from the expenditure of this gold profit; but after that were done the Reserve system would be without influence to contract the credit market except through a discount rate which would probably be ineffective. Thereafter the only control of credit volume would be in the hands of the Secretary of the Treasury.

I would rather say, Mr. Chairman, a Secretary of the Treasury, because I have the highest confidence in *the* Secretary of the Treasury. I am thinking not of him so much as of that Secretary of the Treasury unknown to me who has these vast powers.

When the influence of the credit volume of the country passes from the Federal Reserve System to the Treasury, then the Federal Reserve System is practically abolished. It will remain only, if retained at all, as an administrative agency of the Treasury. That is the reason why I think that you will have to be very careful with this bill lest you destroy the Federal Reserve System, perhaps unintentionally. Of course, so long as the Federal Reserve System functions you will have two forces operating in the market.

Senator BARKLEY. Of course, you know much more about the Federal Reserve System and its operations than I know, or that most of us know here, unless it be Senator Glass; but I cannot quite follow you in the matter of the ultimate destruction of the Federal Reserve System. This bill, as I understand it, does not in any way interfere with the functions of the Federal Reserve System in the issue of currency. It may continue to do so just as it does now, the only change being that it uses the gold certificates of the Treasury as a basis to the extent now to which gold itself is used as a basis. Then, of course, as has been shown here, they have used and now are using about 900 million dollars of gold certificates as a basis for the outstanding Federal Reserve credit. As I see it, this bill does not interfere with the ordinary functions of the Federal Reserve System except to the extent that the activities of the Treasury Department might impinge upon the activities of the Federal Reserve System with reference to the stabilization of foreign exchange. Outside and beyond that, what is there in this bill that would ultimately work any change in the functioning, the importance, or the relationship of the Federal Reserve System to the Government?

Mr. YOUNG. I should say that the whole use of the Federal Reserve System lay in its power to influence, perhaps, rather than to control—largely to influence—the volume of credit in our monetary situation.

Senator BARKLEY. To what extent is that influence diminished by this act?

Mr. YOUNG. It is diminished because you have established practically another bank of equal size having the same power to operate in the market, with no coordination between the two.

Senator BARKLEY. Only to the extent that those operations affect the stabilization of the dollar in foreign currencies.

Mr. YOUNG. Whatever your objective may be, the result is that you have two great forces functioning in the credit market. They may offset each other. They may work accumulatively, and you have provided, so far as I can see, in this bill no way of insuring that team acting together. One may go in one direction and the

other in another direction; and if the Federal Reserve—now I will come back to the final point—if the Federal Reserve, feeling that credit should be contracted due to the operations of the Treasury, sells its Government bonds in the market in the effort to secure that contraction, then it has lost the only weapon that it has to deal with credit volume except the discount rate, which, under such circumstances, I should think would be ineffective.

Senator BARKLEY. If the Federal Reserve System should embark upon a policy that would tend to depress the price of Government securities, do you think that the Government ought not to have any weapon by which it might maintain the price of its own securities?

Mr. YOUNG. You see, Senator Barkley, the problem before the Reserve banks is to try to adjust the volume of credit appropriately to the needs of the country and to the needs of its business. That may result in their buying Governments; it may result in their selling them. When it buys it may artificially affect the price of Governments; when it sells it may depress the price of Governments. But the Reserve banks should never think what happens to the price of Governments. Their job is to fix the volume of credit.

Senator BARKLEY. But the volume of credit, so far as—

Mr. YOUNG. If you will permit me to continue, Senator.

Senator BARKLEY. Certainly.

Mr. YOUNG. That is one reason why it is extremely unfortunate to have the Secretary of the Treasury operate in the credit market, because he is interested in two things: He is interested on the one side in the price of Governments, and on the other side he is affecting tremendously the volume of credit. He would hesitate to contract credit if it depressed the price of Governments, notwithstanding that the interest of the country would require and ought to have a contraction of the credit.

Senator GLASS. Right there, the practical aspect of that is that the Reserve System is conducted by trained and tested bankers who are in intimate relationship with the business of every section of the country?

Mr. YOUNG. Yes.

Senator GLASS. Whereas the Treasury is not, excepting your qualification as to the Secretary. There may be a Secretary of the Treasury who has not any knowledge whatsoever of the credit conditions of this country, or any capability whatsoever to meet an issue that might arise and which affects the credit situation of the country.

Mr. YOUNG. That is right, Senator.

Senator BARKLEY. You have been speaking of credit facilities and credit volume largely in relationship to Government securities?

Mr. YOUNG. No; I am talking about the whole credit volume in the market.

Senator BARKLEY. The whole credit market of the country and of the world, for ordinary commercial purposes, does not necessarily follow a straight line parallel with demand or the price of Government securities, although it may be affected by it. But getting back to your suggestion that there might be a conflict between the Federal Reserve Board and the Treasury operating under this stabilization fund, can you conceive that so long as the Treasury is limited to operations that affect the stability of the dollar in foreign exchange

or the credit of the Government as it affects the price of Government bonds—can you imagine any conflict between the two except where one was trying to depress and the other to maintain the price of securities and those operations resulted in that sort of conflict? Can you conceive of any conflict in the matter except where one is seeking to depress the dollar and the other is seeking to maintain it?

Mr. YOUNG. It seems to me, Senator, that the Secretary of the Treasury, especially under existing conditions, has to be very anxious about the price of governments. He ought to be. That is his job. He would not necessarily be much concerned about whether or not the use of the fund created too much credit in the country, but he might like to see a considerable boom because it would be easier to finance the problem. The danger is in its getting away from him. As a matter of fact, the period of 1928 and 1929 got away from the Federal Reserve banks because they did not start early enough or pursued their contraction of credit volume fast enough. You could very well create a situation here by the operation both of the Federal Reserve banks and the Treasury by which you would get an entirely uncontrollable situation so far as your credit is concerned.

Senator BARKLEY. Could not the same thing happen under devaluation, regardless of who held the gold? For instance, if gold is valued 50 percent, that creates twice as many dollars in gold in the Federal Reserve banks, does it not?

Mr. YOUNG. Yes.

Senator BARKLEY. And upon the gold basis they could issue twice as much currency. Even more than that, because it only has a 40-percent coverage, so they could still permit a condition to exist that would get beyond their control just as it did in 1929.

Mr. YOUNG. Oh, yes.

Senator BARKLEY. Without any activity on the part of the Treasury at all.

Mr. YOUNG. Quite so.

Senator GLASS. I do not agree to that. The Federal Reserve bank just does not issue currency because it can issue currency; not at all.

Mr. YOUNG. That is quite right, Senator.

Senator GLASS. It issues currency upon the demand of commerce, industry, and agriculture; and commerce, industry, and agriculture must put up suitable security in order to get that currency.

Mr. YOUNG. Quite right.

Senator McADOO. The Federal Reserve banks cannot issue currency except upon the application of member banks—

Senator BARKLEY. Oh, of course, we understand that; but Mr. Young is talking not only about currency and credit getting beyond their control in 1929, but it could do the same thing with a devalued dollar, although not a pound of gold were in the Treasury but all in the Federal Reserve banks.

Mr. YOUNG. No.

The CHAIRMAN. It undoubtedly did in 1929.

Senator McADOO. It was not regulated to the extent now proposed.

The CHAIRMAN. That would be an argument in favor of the separation of the two functions.

Senator BARKLEY. If they could do it in 1929 with \$4,000,000,000, we knew they could do it to even a greater extent in 1936 with \$8,000,000,000.

Mr. YOUNG. Yes. That is all the more reason why the Federal Reserve bank, as the sole authority, should be in a position to contract and control that credit.

Senator GLASS. They cannot do it as readily as they did in 1928 and 1929 because the act of 1933 provides very severe penalty upon them if they do.

Senator BANKHEAD. Mr. Young, will you explain to me now, under the stabilization fund, the Secretary of the Treasury can expand credits in this country?

Mr. YOUNG. I beg your pardon?

Senator BANKHEAD. How can the Secretary of the Treasury, under the stabilization fund, expand credits in this country?

Mr. YOUNG. If he uses the stabilization fund, if he expends the stabilization fund, he will create excess reserves in our banking system, exactly as if he bought governments with it.

Senator BANKHEAD. You mean if he spends it in this country?

Mr. YOUNG. Yes.

Senator BANKHEAD. The stabilization fund?

Mr. YOUNG. He sells dollars to buy sterling, if you please, with which to pay for gold.

Senator BYRNES. But, Mr. Young; he cannot buy Government securities except with the approval of the President. Is that right?

Mr. YOUNG. That I do not happen to know. I have not examined the act carefully enough to know.

Senator BYRNES. I thought, in connection with the discussion of a secretary and the secretary, that should be brought to your attention, because it says it must be with the approval of the President.

Senator McADOO. You are mistaken about that, Senator Byrnes. Section 10a does not put that limitation on the Secretary of the Treasury.

Senator BYRNES. Section 10a does not put it on the Secretary of the Treasury for the purpose of buying gold in foreign exchange and such other instruments of credit or security as he may deem necessary to carry out the purpose of this section. Section 10b provides that he may use such part as is not invested in foreign exchange for investment and reinvestment in direct obligations of the United States. It reads:

The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar.

Senator McADOO. That is not a limitation upon all the powers. That applies to a part of them.

Senator BYRNES. It is a limitation on all the money. He cannot use the money, except the surplus not required for stabilization of foreign exchange.

Senator McADOO. May I interrupt at this juncture just a moment to inquire about one phase of your testimony there? You are referring to the inability in 1929 of the Federal Reserve banks, through the powers they then possessed, to enforce a proper contraction with the constantly ascending or increasing inflation. I would like to call your attention to this provision of the Thomas amendment to the Agricultural Adjustment Act, which provides that the Federal Reserve Board, upon the affirmative vote of not less than five of its members, and with the approval of the President, may declare that an emergency exists by reason of credit expansion, and may by regulation during such emergency increase or decrease from time to time, in its discretion, the reserve balances required to be maintained against either demand or time deposits.

Mr. YOUNG. Yes.

Senator McADOO. Do you not think that is the most effective instrument we have yet provided to enable the Board to control credit expansion or contraction?

Mr. YOUNG. I do; and I assume that was what Senator Glass had in mind when he called our attention to the fact that there were powers existing now which did not exist before in the Federal Reserve.

Senator BARKLEY. May I ask you another question there? You know how great a respect I have for your views on all subjects, though I do not always agree with them; but are we to assume, from your position here, that any use to which the Treasury may put this stabilization fund, representing a part of the profits growing out of devaluation, will increase the reserve credits of the country, but that if left in the Federal Reserve banks, it will not be so used to increase them?

Mr. YOUNG. Oh, no. I see your difficulty, Senator. Under my view the profit from the devaluation should go to the Treasury in any event.

Senator BARKLEY. What would you do with that?

Mr. YOUNG. The question is, Who should be authorized to spend that? It has two purposes: First, the direct effect, where we want to deal in foreign-exchange markets, or want to deal in Government securities. That is the direct effect. It has the consequential effect of expanding the reserves of the banks to the extent to which it is expended.

My suggestion is—and I would urge this strongly—that inasmuch as the Treasury will have to use, and perhaps ought to use, a large part of that profit, it should do so only in cooperation with the Federal Reserve bank; and I would think that you would have some kind of a coordinating committee or group so as to insure that the action of the gold profit fund and the action of the Federal Reserve bank on the credit market were in step and not out of step. Do I make myself clear?

Senator BARKLEY. Yes.

Senator McADOO. May I suggest that Mr. Young be permitted to complete his statement now, and then we can ask him questions later?

Senator GORE. I would like to ask one question there, because it is pertinent to this point. You stated awhile ago, Mr. Young, that the Federal Reserve bank should buy and sell Government securities

without regard to their price, but with regard to the volume of credit and the supply and demand of credit.

Mr. YOUNG. Yes.

Senator GORE. The Secretary of the Treasury, if vested with that power, might buy Government securities without regard to the volume of credit, even when there was an excess, but with a view to enhancing the price of securities in anticipation, as you say, of a flotation.

Mr. YOUNG. Quite right.

Senator GORE. That could happen.

Mr. YOUNG. Quite right.

Senator GORE. Do you not think it would be a mistake for any Government agency to buy Government securities merely to get an artificial advance in price in order to mislead the public as to what their real value is?

Mr. YOUNG. Yes; I think it is unfortunate in that respect, but Government financing, like all financing, has its problems in difficult times, and I do not want to sit in judgment on anyone on that.

Senator BANKHEAD. Mr. Young, I did not get a satisfactory answer to my question. Do you know of any way under this bill that the Secretary of the Treasury may expand credits, which you seem to fear, except by the sale of Government bonds—I mean the purchase of Government bonds?

Mr. YOUNG. If he purchases the Government bonds——

Senator BANKHEAD. I say, do you know of any other way that he may expand the credit?

Mr. YOUNG. If he expends it on stabilization it does the same thing.

Senator BANKHEAD. I say, do you know of any other way he can expand credits except by the purchase of Government bonds, with the use of the stabilization fund?

Mr. YOUNG. Let us go back——

Senator BANKHEAD. I think you might know of another way, but go ahead.

Mr. YOUNG. I want to be sure that we understand each other. I do not want to hesitate about answering.

Senator BANKHEAD. If you do not understand my question I will explain it. Go ahead, sir.

Mr. YOUNG. We are speaking about the expenditure of a gold profit which inevitably, when spent, increases the reserves of our banking system, unless it be spent to buy governments from the Federal Reserve bank. That is the only way this profit can be spent by the Treasury without increasing our bank reserves, namely, the purchase of governments from the Federal Reserve bank itself. Then the fund, which goes to the Federal Reserve bank, becomes inert, and does not go in the credit market. Does that answer your question, sir?

Senator BANKHEAD. I do not know that it does. This bill provides that the fund shall be available for a specific purpose (subsection (b) of sec. 10) and that limits it, as I construe it, in addition to the real stabilization of exchange, to the purchase of Government securities.

Mr. YOUNG. Yes.

Senator BANKHEAD. Then I asked you if there was any fear of any undue expansion of credits under this provision.

Mr. YOUNG. If you spend \$3,000,000,000 in the purchase of Governments other than from the Federal Reserve bank, you have increased the excess reserves of the banks by \$3,000,000,000, and provided a credit basis of 8 to 10 times that amount.

Senator BANKHEAD. But you are assuming the use of all the funds for that purpose, and the abandonment of the stabilization fund, in your answer.

Mr. YOUNG. Oh, no. It is the same thing if it is spent from the stabilization fund. The effect is the same, if spent on stabilization, as it is if it is spent on Governments, so far as the excess reserves are concerned.

Senator KEAN. Suppose you brought \$100,000,000 of gold to this country. That would increase the credit, would it not, or expand the credit?

Mr. YOUNG. Yes, sir; if I understand you correctly. I have a little difficulty in hearing.

Senator BANKHEAD. How much expansion of credit, Mr. Young, do you think we really need?

Mr. YOUNG. It is not the expansion of credit that we need. It is the use of credit which we need. We now have 8 or 9 billions of inert potential credit in our banking system, and we cannot get it used.

Senator BANKHEAD. We have a much smaller amount than we had from 1923 to 1929, have we not?

Mr. YOUNG. Yes. If there were a shortage of credit we would all be very happy. Unfortunately, there is an excess of it, and no one wants to use it, even now.

The CHAIRMAN. Let us proceed, gentlemen, or we will never get through.

Senator WAGNER. I just wanted to ask one question while we were right on that subject which Mr. Young was discussing.

The CHAIRMAN. Very well.

Senator WAGNER. You stated, Mr. Young—and that has made an impression on me—that there ought to be at least a cooperation between the Secretary of the Treasury and the Federal Reserve bank in the use of these funds for foreign-exchange stabilization or open-market operation.

Mr. YOUNG. Yes.

Senator WAGNER. Have you, however, thought about how that could be translated into legislation? As you were speaking, I imagined a case where there might be a conflict between the two authorities as to what policy should be pursued. How could that be resolved?

Senator TOWNSEND. A majority of the committee would control.

Mr. YOUNG. Yes. I do not see any reason why—

Senator WAGNER. That is not cooperation. That is merging.

Mr. YOUNG. I do not see any reason, for example, why the expenditure of the fund should not be put in the hands, say, of the Secretary of the Treasury, the Governor of the Federal Reserve Board, and then perhaps some third person appointed by the President, so that you would always have 2 out of 3 to decide.

Senator WAGNER. That is setting up a different authority. You did use the word "cooperation." That would not be cooperation, of course.

Senator McADOO. It would be coordination.

Mr. YOUNG. "Coordination" is the term which I should have used.

Senator WAGNER. It is not coordination, either.

Senator GLASS. Of course, Mr. Young will not agree with this brutal observation of mine, but, as a matter of fact, have not the Federal Reserve banks done pretty much what the Secretary of the Treasury wanted them to do, and have not the Federal Reserve Board done pretty much what the Secretary of the Treasury wanted them to do? I excuse you from answering.

Senator BYRNES. If that was done, then there is no harm in putting the power in the Secretary of the Treasury.

The CHAIRMAN. Then there is pretty good cooperation now.

Senator GLASS. Yes; there has been that cooperation, but there has been a fervent wish on the part of some of us that there would not be quite so much of that kind of cooperation hereafter.

The CHAIRMAN. Proceed with your statement, Mr. Young, and then we will ask further questions. Before you finish I would like to have you discuss the advantages or the disadvantages of having the gold vested in the Government, or held by the banks, if there are any advantages or disadvantages one way or the other.

Mr. YOUNG. I do not think, Mr. Chairman, that I need to say anything more than I have said. I have requested particularly that we treat the legislation as emergency legislation. I have asked, certainly, that you be careful not to destroy the Federal Reserve System by creating another banking institution in the Treasury of equal power or greater power.

I think there is nothing more, Mr. Chairman, unless there is some question I have not answered.

The CHAIRMAN. Are there any further questions, gentlemen? If not, we will excuse Mr. Young. Thank you very much, Mr. Young.

Senator GOLDSBOROUGH. Personally, I want to thank you for your very enlightening and understandable statement, Mr. Young. I think even the man on the street will be able to comprehend it.

Senator WAGNER. Will you not permit us to join in that?

Senator GOLDSBOROUGH. I said I was speaking personally.

Senator WAGNER. We want to join with you.

Mr. YOUNG. I want to say that I have to make it that way because I cannot understand any more. [Laughter.]

**STATEMENT OF ROBERT HARRISS, FOREST HILLS, LONG ISLAND,
NEW YORK CITY, PARTNER HARRISS & VOSE, NEW YORK
COMMODITY BROKERS**

The CHAIRMAN. Mr. Harriss, will you please state your name, residence, and occupation?

Mr. HARRISS. Robert Harriss, Forest Hills, Long Island, New York City; commodity brokerage business; also interested in farm and ranch lands in Texas, Oklahoma, and Louisiana; and in the production, merchandising, and financing of cotton.

The CHAIRMAN. Now, Mr. Harriss, have you examined this bill, S. 2366?

Mr. HARRISS. Yes, Senator.

The CHAIRMAN. We would like to have your views about it.

Senator BARKLEY. May we have order, Mr. Chairman?

Mr. HARRISS. Gentlemen, I am not going to take up much of your time, as I know there are others waiting here who have had more practical experience in banking and foreign exchange than I have.

For 3 years I have urged the necessity of currency expansion and revaluation in order to restore values and restore national solvency.

I am heartily in favor of President Roosevelt's program to restore the 1926 commodity and wage level. This is vital unless we wish the vicious circle of deflation to reappear.

It is now apparent that our fundamental economic trouble is the excessive and unfair purchasing power of the dollar in terms of commodities and labor. This has been caused by the stupendous war and postwar debts.

Our people cannot pay the interest, taxes, or principal on this huge debt because of the excessive purchasing power of the dollar. Now can we tax or borrow our way out of this mire of inflated debt?

In reference to the bill under discussion, I favor the nationalism of our gold as the first step necessary to give us currency expansion.

I disagree with Mr. Young that the certainty of the gold content is the most important factor. We had this certainty on the old basis of \$20.67 for the ounce of gold. This certainty almost ruined our country.

The important factor is the restoration of commodities and wages to the 1926 level, and thus to restore national solvency. The amount of the gold content in the dollar is secondary, as our Constitution so wisely recognizes.

Regarding authority for the President to stabilize between 50 and 60 cents. I believe and would recommend that he should be given broader authority to stabilize as low as 40 cents, or \$54 for the ounce of gold.

A year ago revaluation on the basis of \$41.34 would probably have restored national solvency. However, due to the delay caused by short-sighted and reactionary forces, our debt structure has mounted to where we now require a broader monetary base to restore values.

As to the proposed stabilization fund. I do not think it should be necessary or advisable to put this into operation. More than 90 percent of our debts are domestic. Our need for a stabilization fund is not the same as England. In fact, our position is quite the reverse. We have more than 40 percent of the monetary gold of the world. Our trade balance is favorable, and we do not owe England, France, and other countries, but they owe us untold billions of dollars. Therefore it is apparent that ours is a domestic situation.

Nor do we need this fund to get more dollars out in foreign countries. What we need is to get more dollars out among our people.

It has been proved that it would be unwise to stabilize our dollar to the English pound or French franc. What we must do is to stabilize our dollar on the basis where our huge domestic inflated debts are payable, so as to restore national solvency, then these

foreign countries may stabilize their currency to the dollar. We must not stabilize our dollar to their money.

In conclusion, I would like to repeat from my testimony before the Ways and Means Committee about 2 years ago:

History shows that under conditions like this there is but one answer and that is the revaluation of the dollar, otherwise something far more serious will happen. Communism or its kind will be reverted to.

Also, in May 1932, in replying to General Dawes, Mr. Ogden Mills, and Mr. Eugene Meyer, in testimony before the same committee, I stated that much of their testimony was not in conformity with financial and economic history. I then stated that currency expansion, an embargo of gold, and equitable revaluation is necessary in order to restore values and end deflation.

In conclusion, I disagree with much of what Mr. James Warburg has recently said on the money question. Currency expansion and revaluation is necessary to restore commodities and wages. It is necessary to repair the wreckage caused by the self-named sound-money men and their inflation of debt and credit. It is vital to our national solvency.

The CHAIRMAN. Are there any questions of Mr. Harriss? [No response.] If there are no questions, we are very much obliged to you.

STATEMENT OF GEORGE LE BLANC, PRESIDENT INTER-STATE BANK & TRUST CO., NEW YORK

The CHAIRMAN. Mr. Le Blanc, will you please state your name, place of residence, and occupation or business?

Mr. LE BLANC. George L. Le Blanc, formerly senior vice president of the Equitable Trust Co., New York; president of the Inter-State Bank & Trust Co., New York.

The CHAIRMAN. Based upon your banking experience and observation and study, Mr. Le Blanc, what can you tell us regarding this bill, S. 2366, and its provisions, particularly with reference to foreign exchange?

Mr. LE BLANC. I wish to lead up to the question by reciting a little bit of the past, which is necessary.

During April 1932 I had the pleasure of appearing before the Ways and Means Committee regarding the question of issuing 2 billion, 400 million in notes. Let me quote you a part of my statement before this committee (reading):

We are the only country left that went to war that has not revaluated its currency. They have all had to come to it, one after the other. I spent quite a little time in France and England; in France, particularly, when they were going through the process; and in view of our enormous debts on the gold basis, we will never be able to balance them with our values until we revalue our dollar. I said that a year and a half ago. London has gone through it, and eventually we will have to go through it. It is a question whether we do it now or later on.

The bill that was intended to end the depression was defeated, and the Reconstruction Finance Corporation was born instead, thereby delaying the suspension of gold payments by over 2 years. This serious delay has led us into a policy of muddling through, which makes the remedy more complex. However, I believe that the

President is courageously working in the right direction, and there is good ground to believe we are on the way out.

The Thomas amendment has vested powers in the President to raise the gold price to \$41.34 per ounce, also to issue three billions of Treasury notes if necessary. It has been the most potent factor in facing about from the depression. The issue of Treasury notes was intended to scare capital so as to enable us to keep the dollar on a satisfactory level during the period of our recovery. It has well accomplished its purpose. However, we find our gradual restoration has eliminated the fear of the Treasury notes, and therefore requires a substitute. Is the 2 billions equalization fund the best substitute? All the natural forces are working against such a fund. We have a favorable balance of trade, an enormous foreign investment, our recovery which means more confidence, and gold coverage against our circulation of far exceeding 100 percent, and if we should continue to buy gold with our fund it will attract the free and flighty capital of the world, which is tremendous. In fact, the more gold we buy the more the capital will follow. There are other, many other pitfalls which could be mentioned.

This stabilization fund is established mostly for the purpose of buying gold, and the more gold we buy, the more it will bring up our dollar. That has been the effect, because, if we have pretty nearly all the gold in the world, the capital of the world is bound to be attracted over here. In one way we will be putting out our dollars, and in the other way our dollars will be coming in.

Senator WAGNER. You are speaking of international exchange?

Mr. LE BLANC. Yes.

Senator WAGNER. It has had the opposite effect so far, has it not?

Mr. LE BLANC. Not with the stabilization fund.

Senator WAGNER. The purchase of gold has had the opposite effect.

Mr. LE BLANC. So far, it has, because our position is so strong that the flighty capital of the world (estimated at three to four billions) will be attracted to this country. England had a similar experience, the more gold they bought the more capital followed and consequently the pound became firmer. They could not stop it.

Senator WAGNER. What would you advocate?

Mr. LE BLANC. That is the reason I go a little further in this matter.

We would strongly urge that no pegging of the dollar with other currencies be entered into. Gentlemen, this is a most dangerous point. There should be no pegging with any other foreign currency.

We must not repeat our war lesson, where it cost the United States 11 billions of dollars—revalue together, but no pegging. I love and esteem the President too well to have him undertake such a contract which my experience dictates is of the most dangerous nature. I am in favor of the nationalization of the gold fund and the "new deal" in our banking system. However, fixed planning under emergency seems futile, notwithstanding the great necessity of the several changes in the Federal Reserve bank, as well as the forming of a financial authority, as proposed by Mr. Vanderlip.

In the meantime I continue to believe that we do not want any more credit money—debt money—except for productive purposes.

as we cannot carry what we already owe. What we need is currency money. With the revaluation on the basis of \$41.34 an ounce, we will have 8 billions 600 millions of gold and have outstanding 5 billions 600 millions of currency. Our policies should, therefore, be directed toward a closer adjustment of our financial yardstick. We could raise the present currency level from 5 billions 600 millions to at least 17 billions of dollars of absolutely sound money and our gold reserve would still remain over 40 percent. Europe calls it sound if covered by 33⅓ percent gold. I believe, however, that only apart of this excess would be necessary.

Political regulation, not control, over our banking system is required. Do not let us forget that selfish leadership will destroy the most perfect banking system. If we had gone off gold when England did, we would not be discussing this economic question today.

Now, I tell you, gentlemen, there is a tremendous opposition to increasing our circulation, because the more circulation issued by the Treasury the more it eliminates the Federal Reserve circulation. Mr. Young explained to you that if the Federal Reserve circulation is eliminated, it will almost cease to exist, and that has been the strong power, you see, to prevent it.

You will have to come to it; \$2,000,000,000 will not be anything to fight these natural forces?

Senator WAGNER. May I ask you a question?

Mr. LE BLANC. Certainly.

Senator WAGNER. How would you get this currency out?

Mr. LE BLANC. Our system depends too much on checks and credit. Consequently, when we are very optimistic, we are apt to reach the ceiling or vice versa. A better monetary basis is necessary. It is a fundamental situation. You also have a Federal Reserve bank question involved. As Mr. Young explained, if its privilege of issue is withdrawn from them, there is no way of supporting itself.

Senator WAGNER. I do not think you understood my question. You were advocating, instead of an extension of credit, an extension of currency.

Mr. LE BLANC. Yes.

Senator WAGNER. How is that to go out? Where is the demand for that to come from? Will you explain the mechanics of it?

Mr. LE BLANC. There are many ways to establish more usage for currency. For instance, the N.R.A. codes calls for fees on checks drawn against small deposits, which should be replaced by the use of currency. Furthermore, the member banks of the Federal Reserve are keeping about 7½ percent of their deposits with the Federal Reserve banks, which could be kept in their vaults in the form of currency.

Senator WALCOTT. What are you basing your currency on? What makes your currency valuable?

Mr. LE BLANC. You will always have your gold back of it here.

Senator WALCOTT. What percentage?

Mr. LE BLANC. Currency by the Treasury.

Senator WALCOTT. How much gold reserve would there be if you expand?

Mr. LE BLANC. We have our gold reserve. You can issue sound money, after this arrangement, up to 17 billion of sound money, and you only have \$5,600,000,000.

Senator WAGNER. After devaluation?

Mr. LE BLANC. After devaluation.

Senator KEAN. The Senator from New York was asking you this: If I give you a thousand dollars, and you put that thousands dollars in the bank, they immediately send it to the Federal Reserve, and the Federal Reserve sends it to Washington to be redeemed.

Mr. LE BLANC. Right.

Senator KEAN. Therefore it has made the circle, and it has made it about as fast as a check would.

Mr. LE BLANC. Quite right.

Senator KEAN. How are you going to keep out——

Mr. LE BLANC. The Treasury, when it issues that currency, will stay out.

Senator KEAN. How will it stay out?

Mr. LE BLANC. It will not be redeemed like the Federal Reserve. The Federal Reserve is redeemed immediately when you send it back.

Senator KEAN. If there is no redemption to it, then you are making a capital charge on everybody that gets that dollar, are you not?

Mr. LE BLANC. Not necessarily. It will start with just a few billions of dollars. It will be just enough to begin to reduce your credit money. Your yardstick is out of gear.

Senator KEAN. If you pay out \$100,000—if you give me \$100,000, I take it to the bank and get that credit for it.

Mr. LE BLANC. Right.

Senator KEAN. Immediately, if that is not redeemable, somebody has to hold it.

Mr. LE BLANC. Certainly.

Senator KEAN. Who is going to hold it?

Mr. LE BLANC. Some of the banks will have to hold it.

Senator KEAN. That is my money in the bank, is it not?

Mr. LE BLANC. Yes.

Senator KEAN. That has locked up so much of my money.

Mr. LE BLANC. Yes.

Senator KEAN. You have robbed me of so much money.

Mr. LE BLANC. No. You take the deposits, for instance, of the banks that are kept with the Federal Reserve.

Senator KEAN. Yes.

Mr. LE BLANC. If they decrease that level you are fined. Isn't that robbing you of money in the same way?

Senator KEAN. No; because if I put it in the Federal Reserve bank I can have that redeemed. That is redeemed.

Mr. LE BLANC. The currency you have can be exchanged in the transaction.

Senator KEAN. No; but it naturally would go back to the Treasury to be redeemed. If they refuse to redeem it, then it has got to go back to the Federal Reserve bank, and they have to hold it in their vaults.

Mr. LE BLANC. I mention here that a very small amount probably would be used for that purpose.

Senator KEAN. Another question. The Federal Reserve bank has its gold at the present time. The only way the Federal Reserve bank can make any money is by putting out for every dollar in gold they have \$2.50.

Mr. LE BLANC. Yes.

Senator KEAN. The only way they can make money is by putting out that money and getting that \$2.50 to invest in Government bonds or other securities.

Mr. LE BLANC. Right.

Senator KEAN. That is the only way they make money.

Mr. LE BLANC. That is right.

Senator KEAN. Therefore it is to their interest to shove out all the money they can; isn't that right?

Mr. LE BLANC. Certainly.

Senator KEAN. And the fact that they cannot get out over 5 billion dollars shows that there is no call for more than 5 billion dollars.

Mr. LE BLANC. That is because you are speaking from the standpoint of the present set-up, Senator. But I say that some changes have to be made in our banking situation in order to do that, because our circulation is the lowest per capita that there is in almost any large country in the world; and that is where we are handicapped.

Senator KEAN. You understand fully that the reason for that low circulation is the use of checks and clearing houses.

Mr. LE BLANC. Right.

Senator KEAN. And that you would have to abolish checks and clearing houses in order to get the people to take the money.

Mr. LE BLANC. Not at all; have already mentioned how to make a greater usage of currency. If we are going to keep our dollar down internationally outside of the equalization fund, we will have to issue more currency. The more gold we buy, the more capital will be transferred to the United States, offsetting the sale of dollars by the equalization fund. You have had the same situation in London.

Senator TOWNSEND. Then you do not advocate buying gold?

Mr. LE BLANC. I think we have about enough of the gold right now. The present question is to reduce our credit money, which we have difficulty in carrying.

Senator WAGNER. I know you have been a student of these international exchanges. So long as we have the balance of trade in our favor, is it a fact that eventually there has got to be a demand for dollars as against outside currency, and when that demand exists the dollar will have to go up?

Mr. LE BLANC. It is bound to; and besides, you have all the interest on the investments we have outside; and then, if we continue to buy gold, the dollar may rebound, and that two billion would be inadequate.

The CHAIRMAN. Are there any other questions?

Senator GORE. You say you think 17 billions could be issued safely under this existing condition?

Mr. LE BLANC. Senator, would you mind repeating? I did not hear you.

Senator GORE. I believe you stated you thought 17 billions of currency could be issued, and would be safe and sound.

Mr. LE BLANC. Yes; because you still have a 40 percent gold reserve against it.

Senator GORE. You would have that redeemable in gold?

Mr. LE BLANC. Yes.

Senator GORE. I think I heard Father Coughlin say the other day that it ought to be about 20 billions.

The CHAIRMAN. I understand the formula now is that it is safe to issue two and a half times the amount of gold in currency.

Mr. LE BLANC. Absolutely.

The CHAIRMAN. Or 10 times or 12 times the amount in credit.

Mr. LE BLANC. Yes. Your credit money is 200 billions instead of 76 billions, and your currency is way down. Your financial yardstick is out of gear.

The CHAIRMAN. Would that help the situation?

Mr. LE BLANC. That would help considerably, because a few billions of currency begins to turn around—

The CHAIRMAN. You would do that by devaluing the gold dollar?

Mr. LE BLANC. First, that helps you to issue more currency. The fight now is between the Federal Reserve and the Treasury as to who is going to issue the currency, because it is a matter of life and death to the Federal Reserve if their currency is displaced.

The CHAIRMAN. Who do you think ought to issue it?

Mr. LE BLANC. Would be willing to let the Federal Reserve do it, but their misleading policy has been partly responsible for this situation, and we have lost confidence in them.

The CHAIRMAN. You think it would be safer to have the Treasury do it?

Mr. LE BLANC. Yes, temporarily; it is leadership that is necessary.

The CHAIRMAN. If there are no further questions, we are very much obliged to you, Mr. Le Blanc.

**STATEMENT OF JAMES H. RAND, JR., CHAIRMAN OF THE BOARD,
REMINGTON-RAND CO., NEW YORK**

The CHAIRMAN. Mr. Rand, please state your full name, address, and occupation.

Mr. RAND. James H. Rand, Jr.; chairman of the board of Remington-Rand; 205 East Forty-second Street, New York City.

Mr. Chairman, I am very glad to have the opportunity to speak in favor of this bill. I think it is the most important step that has been taken in the financial history of the United States. I believe that the so-called "gold purchase program" of the Administration will, after the passage of this bill, be carried into effect in reality for the first time. Up until now no one could justly criticize the failure to get results in the raising or stabilizing of commodity prices for the simple reason that the Administration has never had the machinery nor the free hand with which to publish to the world a price of gold and make that price effective.

The fundamental principle of the gold-purchase plan of controlling prices and of regulating the standard of living in a country is that the Government itself should offer to take all gold offered by anyone anywhere in the entire world, at the published price. Until now that has not been done, not for one moment, and therefore the plan has been ineffective. All this time the Bank of England, operating in London as the largest factor in the British open market for gold, has been the dominant power and in absolute control of the world price of gold.

Only recently, according to the press, has the United States Treasury dipped into this market in a small way, and perhaps for a few days has been the largest factor; but it was necessary to go slow, I take it, because of the lack of facilities for financing any large purchases of gold, or the inability of the Government to issue gold certificates or any form of money based upon the new gold so acquired.

The gold reserve bill provides for taking adequate and vigorous steps in making this plan effective, and I am therefore heartily in favor of it and sincerely hope that it will be passed. Had the machinery been ready and available to the Treasury, I believe that by this time we could have had a price of \$41.34 per ounce of gold instead of \$34.45, which has been attained 8½ months after the suspension of specie payments in this country. It would have been better to have proceeded more vigorously because in the meantime defaults in domestic debts have been piling up.

I believe it will be dangerous to stabilize—and I want to emphasize this because I consider it of vital importance—to stabilize our dollar at the 60-percent-maximum rate of gold content provided by this bill. I think it is very clear, from a statistical research of the factors in the equation, that a 60-percent value—60 percent of our former gold value—would leave our farmers in a position where their debt burden cannot be borne, and without competitive power against the sterling-area countries—Australia, New Zealand, the Argentine, and Denmark, which are under England's leadership, and which now have an average reduction of gold value or gold content of their currencies of approximately 50 percent.

It is not England that we are competing with in the markets of the world. Our farmers are competing with the political dependencies of Great Britain, namely, Australia, New Zealand, and with another member of the sterling area, a large producer of agricultural products—the Argentine.

Many people do not know that those countries have virtually doubled the price of gold, and in order for our farmers to compete the United States must double the price of gold. Otherwise it leaves our farmers at a price disadvantage, and everyone knows that our farmers represent the backbone of the purchasing power of this country and are an important factor if we are going to have recovery.

Senator KEAN. Is the balance of trade with those countries in favor of the United States or is it against it?

Mr. RAND. I believe at the present time that it is about equal. I am speaking just offhand. That is my impression. The last published report I saw on the Argentine Government showed that they were exporting more goods to us than we were selling to them.

Senator KEAN. How about Australia?

Mr. RAND. As to Australia, I cannot say. I have not the facts, and I would not want to venture a guess; but I will say this: That they are very important competitors of our farmers, and if our farmers' prices in the world markets are higher, in terms of ounces of gold, than their prices, they are going to get the business and their wheat and agricultural products will move to market before ours do. Ours will move last, if at all.

Senator KEAN. How about freight rates?

Mr. RAND. Freight rates have a bearing, but when the differential is greater than the freight rate in favor of Australia, she gets the business from our farmers.

I might say also that that same differential applies also to the Orient, and that has had a very depressing influence upon our agricultural prices, because the foreign exchange of the Orient, the monetary exchange, is silver, and inasmuch as silver has been declining in value, and allowed to decline, I think, purposely, on the part of the British, the oriental farm produce has forced the prices of American farm products down, because it places the American farmer and laborer in competition with Chinese coolie labor, which is paid in the depreciated pieces of silver.

Senator KEAN. Is it not true that silver has gone up more than any one commodity in the last 6 or 8 months?

Mr. RAND. Silver has always led the advance or decline in world commodities.

Senator KEAN. Silver was 24 cents in June.

Senator WALCOTT. 22 cents.

Senator KEAN. Or 22 cents. It is now 44 or 45.

Mr. RAND. There may be a slight drag in general commodities following silver, but it is always a drag.

Senator KEAN. That is an advance of 100 percent. What other commodity has gone up 100 percent?

Mr. RAND. What other commodity went down as far as silver? You can take the average commodities—

Senator KEAN. Silver has gone up.

Mr. RAND. You can take the average prices of commodities for the last 25 years and the average price of silver. I will send you a chart if you would like to have it. It will show you that silver has led the advance or decline in those world commodities.

Senator KEAN. Silver has gone up more than any other commodity in the last 6 months.

Mr. RAND. That has greatly relieved the pressure, but it has not gone up far enough to sufficiently relieve the pressure, and I believe when silver goes to a dollar an ounce the pressure will be so little that it will have no effect. The pressure of agricultural prices in the Orient will have no effect upon our prosperity in this country.

Senator KEAN. Which dollar are you talking about, the 50-cent dollar or the 100-cent dollar?

Mr. RAND. I am talking about silver. I was not talking about the dollar.

Senator KEAN. You said something about silver going to \$1 an ounce. That is what you said.

Mr. RAND. When I say a dollar an ounce I am talking about the dollar after revaluation has taken effect, at between 50 and 60 percent of its present gold content.

Senator WALCOTT. That would be 50 cents. It is about there now.

Senator GORE. You figure that reducing the value of the dollar here will contribute to our prosperity?

Mr. RAND. I certainly do.

Senator GORE. And you think that enhancing the value of silver in China will help China?

Mr. RAND. Will help the Chinaman?

Senator GORE. Yes.

Mr. RAND. No; but I think that we have to choose between protecting our own economy in this country and looking after foreign nations. We had better begin at home. Charity begins here.

Senator GORE. But do you not know that enhancement in the value of silver has already occasioned a depression in China?

Mr. RAND. All I know is from my own experience; and we are selling more and not less of our goods to China than we were a year ago.

Senator GORE. Well, what is your complaint then about it?

Mr. RAND. Beg pardon?

Senator GORE. You have no complaint then about it?

Mr. RAND. Increase in the price of silver? It enables those who have silver in China to buy more.

Senator GORE. Those who have silver in their pockets and in their vaults in China are of course helped by the increased value of silver, just as those who have gold here would be if we did not take it over?

Mr. RAND. That is right.

Senator GORE. But the people of China, when silver goes up, their prices go down in China, do they not?

Mr. RAND. The tendency should be to go down; yes.

Senator GORE. In other words, our dollar has been too dear here and other things have been too cheap. China has had cheap money and dear things.

Mr. RAND. That is right.

Senator GORE. Now you want to cut our dollar down and increase the price of our things. On the other hand, you want to increase the price of silver in China and cut down the value of other things. China pays for her goods with things, with tea and silk and things like that, and they go down as silver goes up. Isn't that true?

Mr. RAND. That is true.

Senator GORE. Don't you know the economists and financiers in China are protesting this artificial increase in the value of silver?

Mr. RAND. They may be. I don't doubt in the slightest that they are.

Senator COUZENS. Are you going to offer some amendments to this?

Mr. RAND. I am getting into that, Senator.

Senator COUZENS. You have not got them printed, have you?

Mr. RAND. I have; yes.

Senator TOWNSEND. What is there in this bill that helps silver?

Mr. RAND. The equalization fund permits the purchase of foreign exchange generally, and silver happens to be one of the elements in foreign exchange. I think it is one of the safer elements to deal in outside of gold. I cannot conceive of the equalization fund being used to purchase any nation's paper currency that is not convertible into gold. You could purchase francs provided you converted immediately and earmarked the gold. You could purchase sterling provided you stepped right into the London market that same day and converted the sterling into gold, shipped the gold or earmarked it there, or you could purchase silver. Outside of those four I cannot conceive—of course, you have got at the present time Switzerland, Holland, and Denmark still on gold in reality, and you could do the same as you could in France with those.

Senator GORE. You speak of buying silver. Have you been buying silver, Mr. Rand?

Mr. RAND. No; I don't own any silver.

Senator GORE. Have you lately?

Mr. RAND. No.

Senator KEAN. Mr. Rand, isn't it true that the decrease in the value of silver has been caused very largely through the sale by European governments of silver; that they sold 660,000,000 ounces of silver, which represented almost what was produced in silver from Columbus up to date?

Mr. RAND. Undoubtedly it had a powerful effect in depressing the price of silver.

Senator GORE. Then silver did not vary accordingly to the commodity in the natural market?

Mr. RAND. Oh, yes. It led to——

Senator GORE (interposing). The market was upset by being flooded with this enormous amount of silver?

Mr. RAND. And the dumping of that silver and the decrease in the price of silver, as I understand it, and I diagnose it personally—and I am no authority on the subject—caused prices of basic commodities to go down, because you had depressed not only the commodity of silver, but the money silver, which is money for a very large percentage of the world's population, and when you depress their money you are depressing something that is of vital importance in the world's economy.

I would like to speak for a moment on a phase of this bill in which I am vitally interested. The bill provides for placing permanent power in the hands of the Secretary of the Treasury and in the hands of—well, it reposes in the hands of the Secretary of the Treasury, and this is a permanent feature and not a temporary feature. I have no reservations as to the ability of the present Secretary of the Treasury, guided by the advice and counsel of the President, to handle the situation as you would like to have it handled or as the country would like to have it handled; but I think we should provide machinery which will perpetuate this control of the price level and of the price of gold and of silver in the hands of an impartial, unbiased monetary authority, which, for the want of a better term, I would suggest calling the "Federal monetary authority."

Mr. Vanderlip has outlined the principles——

Senator BARKLEY. That would be the F.M.A.?

Mr. RAND. Call it what you will, it would be a boon—b-o-o-n—to humanity.

Mr. Vanderlip has outlined the principles upon which such an institution for the control of the dollar might be built, and I think suggestion has been placed before Members of the Senate, and it provides for such a Federal Monetary Authority to become the sole source of issuing currency and the mechanism for controlling the purchasing power of our dollar.

This central Monetary Authority would be under obligation to rediscount for the Federal Reserve System all eligible paper accepted by the Federal Reserve System from member banks. As the needs of our time require that the Nation itself issue its own money, the

function of issuing notes would be taken from the Federal Reserve System. Otherwise its operations would be undisturbed.

Grave danger exists that the Government may enter too deeply into banking and that million-fold decisions as to who shall and who shall not obtain credit may become a matter of political control. These decisions belong rather to private capital, which is risked and, therefore, is concerned in testing the safety and validity of each transaction.

I hold no brief for mismanagement or breach of trust that has occurred in the banking system. I feel that the reestablishment of a sense of trusteeship that will maintain banking as a profession of high standards is a fundamental need. On the other hand, I see grave danger that in attempting to cure the evils of banking we rush to the other extreme and throw onto the Government the impossible task of making the myriads of economic decisions that have gone into the functioning of our banking system.

In the past probably 70 percent of the difficulties in banking were due to the drop in price level. And right there, I maintain that the solvency of this country and of the people and of the institutions of this country rests upon, and is no more reliable than the maintenance of a stable price level. We have seen in the last 4 years how the price level can drop out from under not only individuals and corporations, but also banks, and practically from the taxable sources of revenue of the Government itself.

Despite all its faults and handicaps, our banking system served to finance the greatest economic and industrial development that ever occurred in any nation. In attempting to overcome its evils we must not destroy its usefulness. There is a saying: "When trying to get rid of the bath water be careful not to pour the baby out of the window." That applies here as to our institutions based upon private property and the profit motive that underlies them.

There is strong opinion that the Government should take over the gold from the Federal Reserve banks. The proposal in the pending legislation is to pay the banks for that gold in gold certificates. These bear on their face the declaration that they are exchangeable for gold, that they are simply warehouse receipts. It would put the Government in an anomalous position to make a huge issue of these gold certificates and exchange them for the actual gold held by the Federal Reserve banks. This is not intended under a gold bullion basis. But under our present banking system there is no other form of currency that the Government can issue in return for the gold.

It seems to me, therefore, that it would be altogether wiser to create immediately the Federal monetary authority, with the power to issue currency, to pay the Government with its notes for the gold held now in the Treasury and the gold transferred to the Treasury from the Federal Reserve banks.

I presume the reason for the great haste urged in respect to this present legislation is that the Treasury has need to finance its immediate necessities by the sale of either interest-bearing notes or Government bonds. Those necessities will be met to the extent of something like 2 billion dollars out of the gold profit, if necessary.

This proposal would put the money-issuing power and the control of the value of money into the hands of the Government, where it belongs. The currency-issuing privilege would be taken from the Federal Reserve banks, but their usefulness would not be circumscribed in the slightest. They would continue to be the central reservoir for the reserves of member banks and would continue to rediscount eligible commercial paper.

To enable the Federal Reserve banks to function under all circumstances, there must be a way to replace their currency-issuing privilege. That is offered in the obligation of the monetary authority to rediscount the paper of member banks which Federal Reserve banks have already rediscounted. This would give the Federal Reserve banks an outlet which would make their rediscounting ability just as great as it has been while they had the currency-issuing privilege.

One of the most important objectives that has been aimed at is to raise the price level so that the debt structure, compared to the price level, will be bearable. Suspension of gold payments, the purchase of some gold at a higher price, and the prospect of ultimate revaluation of the dollar have had some effect in depreciating the dollar and in raising the price level. That effect has been in part direct, but for the most part psychological.

The proposed monetary authority would have in its hands all of those powers which go to control money and control the price level. Those powers include—besides the issuance of currency—the control of the rediscount rate and open-market operations in Government securities and commercial paper, and the relation of our currency to foreign exchange and to silver.

With this central control properly handled the monetary authority could change the ratio between the gold reserve and the total currency issue at will, provided, of course, that an ample gold reserve is maintained upon which to base complete public confidence in the currency. Our gold stock is so large there would be no difficulty whatever, in our opinion, in bringing about the desired rise of prices and still having such ample backing for the additional currency that it would have complete confidence of the public.

We should have an open market for gold bullion. It should be as free a market as any other commodity market—as the cotton market or the wheat market or the silver market. Gold would flow to it from anywhere in the world. With ability on the part of the monetary authority to buy and sell gold in that market, there would be power to raise the price level, and control it as it is raised. Why should we leave the price of gold to be dictated to us by the Bank of England? It is the most important commodity in the world. By controlling the dollar price of gold for ourselves, we can exercise control over the purchasing power of our own money.

The granting of power to the monetary authority to buy and sell silver bullion is not suggested as a sop to the silver sentiment. It is precisely in accord with the suggestions brought forward at the London Monetary Conference, looking toward the adoption by all central banks of a plan to hold in central bank reserves an adequate amount of silver bullion. I suggest that silver, to an amount at least equal to 25 percent in value of the gold held, might gradually be acquired by central banks and placed in their reserves. Under the proposal,

there should be maintained an offer to purchase at least 1,000,000,000 ounces of silver, if it could be had at prices approved by the monetary authority—presumably between \$1 an ounce and \$1.30 an ounce.

The probable effect of creating such a buying ability for silver would be to reduce the amount of silver coming into our market. The silver-using nations are in no position to part with their silver. There are perhaps 150 million ounces of silver in the New York market. But even that would not necessarily be sold to the monetary authority at anything like the present range of prices. The creating of this power to purchase would put up the price of silver with certainty, and that advance would be of great advantage to this country. It would do away with the advantage which oriental countries now have over our domestic industry and agriculture.

The monetary authority could augment its gold stock, if needed to increase the base for further currency issue, or it could reduce its gold stock by selling gold in the open market to check an abnormal rise of prices.

There is nothing new or untried about this plan. All these forces have been in use by the various European central banks. They are in successful operation by the Bank of England. They are the tried levers of a managed currency and are not, therefore, by any means monetary control to be regarded as experimental or novel suggestions.

Unless we create a central authority in which these recognized levers of monetary control are combined, we shall continue to be a financial dependency of London, and, in a lesser degree, affected by other European countries where there is scientific central bank management.

The Thomas amendment of last spring, empowering the President to print 3 billions of fiat paper money with which to buy an equal amount of Government obligations, opened a door which might have led to uncontrolled printing-press money. But there has been real necessity for retaining that weapon in the event that combination of financial and political influences might ruin Government credit. Any powerful group of deflationary interests could now create havoc by concerted dumping, accompanied by disinclination to buy short-term Treasury paper—thus exercising virtual power of veto upon the execution of appropriations legislated for recovery.

The proposed monetary authority would have power to buy and sell short-term Government securities and thereby protect the Government from coercive influences of all kinds. Currency issued by the monetary authority would, in turn, find its way into the reserves of member banks and induce more liberal extension of credit to business. By this operation much interest-earning Government paper would be taken up and banks would have instead noninterest-bearing idle currency. The result would be greater loans and greater business activity.

Now, I would like to emphasize in closing that these great powers conferred by this bill certainly should not be lodged permanently in the hands of one man. That is a principle that is safe for us to pursue. This does not imply the slightest lack of confidence in the President or his Secretary of the Treasury. But we must build for the future, for all the men who may be their successors for generations to come.

The proposed Federal monetary authority must be surrounded with safeguards against undue political influence and with equally strong safeguards against undue banking influence. It must be the custodian of our financial welfare just as the Supreme Court of the United States is the safeguard of our legal rights. The monetary authority must tower above all special and class interests. It must be so free that it can always maintain our money as a just and stable measure of value in all contracts between man and man.

No force can become so destructive in our social and economic lives as a change in the purchasing power of our money. Conversely, restoration of our price level and maintenance of a dollar stable in purchasing power can be the greatest boon to our Nation.

President Roosevelt, in announcing this objective, has set the most important goal in social history. The next all-important task is to build a permanent administrative machine to carry his policy to faithful execution in the years to come.

Senator BARKLEY. I would like to ask you, Mr. Rand: You are chairman of what is called the Committee for the Nation. What is that committee?

Mr. RAND. That is a group of between 1,600 and 1,700 industrialists, most of them heads of manufacturing corporations, some bankers, representatives of four or five national agricultural organizations, which have grouped together to study this problem of pulling the country out of the depression and have published from time to time reports to try to stimulate thought and study on the part of citizens, believing that altogether too little thought has been placed on this whole subject.

And I might say, speaking as one of the manufacturers, I felt personally when the group first was organized that the only occupation that a manufacturer had in 1931 and 1932 was in chopping off heads and cutting salaries, and that was not a very enjoyable occupation for any citizen, and I found others agreed with that feeling, and we thought we would knock off work for time enough to study this thing and try to get at the fundamentals. I might say that we have put a large amount of study into it, sometimes all night and sometimes 2 or 3 days in succession locked in a room, taking barely time enough to sleep, because we wanted to finish on a line of study and of research and arrive at definite conclusion before we went out.

On April 6, 1933, we published a recommendation that was somewhat along these lines that I have just given you. I am reading now from a publication made April 6, 1933:

A Federal nonpartisan board should be created to stabilize the United States general price level of wholesale commodity prices, and in creating this board we must recognize that control of the general price level, of monetary policy and of foreign exchange is of fundamental importance to the Nation's social and economic welfare. Upon the resulting stability depends the wellbeing of labor, industry, and agriculture. We suggest, to accomplish its purpose, this board should have available ample Government credit for buying and selling foreign exchange at its discretion.

In other words, we were thinking along these lines for more than 9 months, and I will say that this group has approached the subject of money and monetary methods with a spirit of extreme humility. We were most of us "deflationary" in our tendencies and our beliefs to begin with, and today most of us are "reflationary", because de-

flation cannot be carried out without revolution. We went right up against that and we have backed away from it as a country, and now we are going in the other direction, to make this country solvent, and to make this country a pleasant place in which to live and do business.

Senator GORE. Mr. Rand, do you happen to know anything about the stock-market activities of your leading members of your Committee of the Nation?

Mr. RAND. Stock-market activities?

Senator GORE. Yes.

Mr. RAND. No; I do not.

Senator GORE. Do you know whether any of them have been dealing in silver pretty extensively?

Mr. RAND. No; I do not.

Senator GORE. Dealing in cotton?

Mr. RAND. I should say they have not had time to, from the amount of time they have put on the work of this committee.

Senator GORE. Yes. Do you know whether they deal in cotton or not?

Mr. RAND. I do not. I do not have knowledge of any of the personal finances or operations of any member of the committee.

Senator TOWNSEND. Is your committee practically agreed on the statement you have made?

Mr. RAND. Practically agreed, the directing committee has, and the membership at large has been consulted, and we will have within the next few days the extent to which the membership at large agree with the recommendations. These are my personal recommendations today. I am not speaking as a representative of the committee.

Senator TOWNSEND. You are just giving your personal views today?

Mr. RAND. My personal views, and in which I am in hearty accord with the position that has been taken by the directing committee.

Senator TOWNSEND. I see.

Mr. RAND. The members of the directing committee are Mr. Rosenwald of Sears-Roebuck & Co.; Mr. Sexauer, president of the Dairy-men's League; Mr. Frazier of the General Baking Co.; Mr. Bendix of the Bendix Aviation; and myself.

The CHAIRMAN. Any other questions? We are much obliged to you, Mr. Rand.

Senator GOLDSBOROUGH. Mr. Chairman, I would like permission to have placed in the record a statement made by Professor Doten, of the Massachusetts Institute of Technology. He does not want to occupy time with it, so if you will let it go in the record I would be obliged.

The CHAIRMAN. Without objection that will be entered in the record.

STATEMENT SUBMITTED BY CARROLL W. DOTEN, PROFESSOR OF ECONOMICS, MASSACHUSETTS INSTITUTE OF TECHNOLOGY, CAMBRIDGE, MASS.

GENTLEMEN OF THE COMMITTEE: I do not profess to be an expert on money. I am simply an economist who has taught money and banking among other branches of applied economics for a period of 30 years.

I do not propose to indulge in any elaborate discussion of the bill now before you for consideration. I shall address myself directly and primarily to

only one feature of that bill, namely, the proposition to change the fundamental basis of our monetary system by revaluing gold in terms of dollars and cents.

What I shall say will be put in the form of more or less general assertions or propositions without adequate statistical evidence to support them, although such statistical evidence can easily be assembled and presented.

It seems to me that this is a time to apply the simple principles of economics. It is the time to appeal to common sense and cool judgment. It is no time to warrant yielding to panic or to indulge in hasty and ill-considered action.

Too great a reverence for the past is unwise, but an utter disregard for historical lessons is worse. We have had in recent years a most unhappy demonstration of the troubles that may come to a nation through yielding to the hysteria or enthusiasms of the moment.

Without casting any reflections upon anybody or entering into the merits of the question, I would call attention to the fact that under the stress of war and with all the patriotic enthusiasm of the time, we undertook what has sometimes been called a "great moral experiment", namely, prohibition. I do not need to point out to you in detail the results of that experiment and the situation in which we find ourselves in the attempt to clean up the wreckage that has accompanied, if not been caused, by the experiment.

We must be realists even in our enthusiasm for the ideal. The teachings of science prove that all evolutionary processes are extremely slow. So slow that millions of years are required to make substantial and permanent changes in the lower forms of plant and animal life. Centuries and eons have made little change in man either physically or mentally. Social and political changes are somewhat more speedy but even they cannot be made, and they do not occur in a day or a month or a decade.

May I remind you that we hoped our sacrifice of 16 years ago would not only make the world safe for democracy politically speaking but would raise humanity to a higher level in every way? Most of our hopes and expectations of that time have been sadly disappointed. To put it brutally and bluntly, we indulged in a pipe dream. We went on an emotional jag. This is the morning after, and while our heads are still aching and while we are still endeavoring to clean up the mess and wreckage in the dull gray light of the morning after, we are invited to enter upon another crusade for a most desirable purpose, but by ways and means which are so unusual and so untried that we may well hesitate to embark upon the enterprise.

My excuse for taking your time is that I have not only studied the records of the past, but have lived through many periods of depression, from 1893 on. I simply wish to remind you that we have come through all of these depressions and those that preceded my memory but are a matter of historical record without changing the gold content of the dollar.

As you know, that content has only once been changed since our present monetary system was established under the sagacious leadership of Alexander Hamilton in the early days of the Constitution. That one change was made in 1832-33, in the futile effort to fix a ratio between gold and silver that would keep the two metals in circulation side by side in a bimetallic system which England had already given up, and most of Europe abandoned during the ensuing 30 or 40 years.

Did the action of 1832-33 accomplish the purpose intended? It did not. Previously gold had been undervalued and it was not only unprofitable for the owners of silver to turn it into coins, but we had to pass an act in 1853 taking some of the silver out of the subsidiary silver coins to keep them from being melted down into bullion for the commercial market.

All of this is such elementary economics that I should apologize to the committee and even to the traditional school boy for repeating it at this time, if I were not so painfully aware of the fact that everybody seems to have lost sight of simple truths in contemplating the elaborate mathematical demonstrations of the experts.

I have not only lived through panics and depressions and studied the records of others which occurred long ago and which were always accompanied by demands for inflation of one kind or another, but I have observed another less conspicuous cycle or series of cycles in the general attitude toward gold as a currency basis.

I have not attempted to determine the exact periodicity of this cycle, but I am sure that the correlation with the "business cycle", so called, is by no means perfect. In fact, there is often a distinctly negative correlation.

For example, I well remember something like 25 years ago there was a general apprehension in business and economic circles that gold was getting to be too plentiful to serve as a satisfactory basis for our currency. There was serious thought given to finding a satisfactory substitute for gold, and platinum was often mentioned.

Some professors of economics were so impressed with the danger of the situation that they advocated the carrying of gold and the use of it in ordinary circulation, as it was in that time being used in European countries, in order that too large quantities of it should not be left in banks and the Treasury as a basis for the credit structure of our economic system.

A few years later, during the war, when this country was flooded with gold from abroad, and when the gold dollar was worth about 50 cents, our Government withdrew the gold certificates from circulation and impounded gold, and there was serious consideration given to appeals from the gold-mining interests that subsidies should be provided in order to enable the mines to continue and to insure an adequate supply of the yellow metal as a basis for national credit.

All this was in face of the greatest gold inflation which had ever occurred in any country or time, so far as gross figures are concerned.

These absolutely and diametrically opposite attitudes, not merely of the public mind but of the economists, which occurred within a decade of each other, should give us pause now when we consider the matter of yielding to panicky and uninformed public opinion.

Now, again, we are confronted with a demand for more gold or a doubling of the number of gold counters when practically all the gold of the world has ceased to be used as money and is impounded to serve as a basis for bank and government credit, which the business world cannot or will not use.

Let us use our reason and not yield to the emotions or to our doubts and fears. What good can now come out of inflation, whether it be a gold, silver, or fiat paper inflation, singly or in combination? Who would benefit and who would lose by it if it were effective in starting a rise in prices and not merely a fall in the foreign-exchange value of the dollar? Merchants and others might make more money for a time, and they might be able to retain it if they were to retire from business before the next crisis occurs. It would be perhaps fruitless to go on and analyze the various types of business or enumerate the economic institutions which would be affected by such an inflation.

Those who are proposing inflation now make their principal claim for it on the basis of relief to debtors. They recognize, of course, that much or all of the advantages which would accrue to debtors would mean disadvantage or loss to creditors.

Let us consider for a moment who the debtors and creditors are. Don't get the notion that the struggling farmer and the little home-owner, overburdened with mortgages, are really typical of the great body of debtors in the United States today. The great debts, outside of Government bonded debts, due largely to war and perhaps to some extent to waste, are owned by the corporate interests: Railroads, utilities, steel, coal, and so forth, many of whom have used bonds as one means of getting other people's money to play with and to speculate with, while they denied their creditors the privilege of participating in the management of the capital which they supply.

These are the people who would welcome the cancellation or the easy payment of their debts so that they could repeat the old game of hoodwinking investors and robbing the public in other ways.

On the other hand, the creditors are not hard-hearted Shylocks or even the glassy-eyed bankers who have recently, through misfortune or misdeeds, fallen so low in public esteem, but rather they are the great body of our hardworking, simple-living, and frugal peoples whose savings are in Government or corporate bonds or in insurance companies, savings banks, and other fiduciary institutions which have invested in such corporate bonds.

I beg of you to think of these people, the great middle class and a very large part of the laboring class when you plan to make life easier for debtors by means of inflation and remember further that since the great war inflation in European countries has been more effective than red revolution in destroying the property of this class abroad and of reducing them to poverty and even to starvation.

Another argument for inflation is that by means of it the inequalities in income and in the possession of economic goods would be reduced. I contend that it would act in a contrary direction. It would probably raise the prices

of the things the farmers buy more rapidly than it would the price of his products. Labor will inevitably suffer because wages never have and never can advance as rapidly as prices. Moreover, monopoly prices or prices which have some monopolistic element in their determination will rise faster and farther than competitive prices, thus benefiting those who least need and deserve assistance at this time.

Practically the only effect of depressing the dollar in foreign exchange value is a slight and doubtful advantage in foreign trade. That advantage, to my way of thinking, is far outweighed by the difficulties and the losses which may arise out of this attempt to jockey with other nations in the markets of the world. These attempts have aroused or have increased the resentment and fears of other countries. They may at any moment lead to further and more troublesome retaliatory measures. We already have a sufficient number of embargoes, quotas, and other impediments to the flow of international trade without encouraging the development of more.

Have you thought what would happen if France should get tired of furnishing a measuring stick for the rest of the world or revalue the franc at a lower level? Would it then be possible to fix the value of the weight of a gold dollar at 60 percent of its present weight and still retain the slight differential advantage in the foreign market which has come from our beating down the exchange value of the dollar in recent months?

There seems to me to be no limit to the race that might occur in this matter of competitive devaluation of monetary standards.

I cannot see how the devaluation of our monetary standard can in any way be effective in preventing future panics, crises, and depressions. If nothing else happens, the mere calling of 50 cents a dollar will not change the fundamental basis of our credit system or anything else, except the relations of debtors and creditors on contracts that have been made in the past. It will be just as easy to enter upon an orgy of speculation with 50-cent dollars as it was in the late 1920's with 100-cent dollars.

We built up in this country a volume of bank deposits which are, of course, far more influential in determining price levels and speculative activities than the real money of the country. In 1890 with a monetary stock of less than 2 billion dollars, we had bank deposits of somewhat less than 5 billion dollars. In 1928, 38 years afterward, with a stock of money only four times as great, namely, in the neighborhood of 8 billion dollars, we had bank deposits of 57 billion dollars. The ratio of increase in money stock was fourfold. The increase in deposits was between 11 and 12-fold. In the meantime, the population of the country had almost exactly doubled. If we had been playing during this period with 50-cent dollars, these figures would have been multiplied by 2. The ratio would have remained the same and so if we project our thought into the future, there is no reason to assume that it will be any better for us to have figures doubled by cutting the unit in half.

We shall, in any case, have to base our monetary system and our credit upon the same volume of gold whether we measure it in tons or dollars of a fixed weight. Why add to the cost of printing, typing, and bookkeeping, not to mention recoinning our subsidiary silver and all the other things that are involved in the handling of an entirely new medium of exchange?

Why make a break with our past that will destroy the comparability of finance, price, and wage statistics which we have been painfully gathering?

If we must make a break of this sort, may we not have one that will be easy for the future generations of school children to figure out how their times and ours may be compared and how the books of all the years that have intervened since our monetary system was inaugurated in the latter part of the eighteenth century and down to date, may be read in that new period which lies ahead of us.

If the change must be made, let us have a 50-cent dollar which will leave an easy break for these poor boys and girls rather than a 60-cent, or a 66 $\frac{2}{3}$ -cent dollar.

What I have just said may seem to be an anticlimax or a weak ending to a serious argument.

My excuse for calling attention to these simple things is to bring us all back to a sense of reality and to the knowledge that, after all, great truths are usually simple truths.

I am fearful that the experts in monetary science, like the experts in many other branches of science, have gone so far in their mathematical analyses that they have lost touch with realities and with real men and women. They

have certainly gone so far in developing a new language and a new technique that they have become incomprehensible to the lay citizen who listens to their demonstrations.

I am sometimes even tempted to believe that they have become incomprehensible to each other, and possibly to themselves.

Personally, if something is wrong with me in a physical sense, I had rather trust the first examination and diagnosis to the old family physician who understands my personal history and idiosyncracies, and has known me long enough to really diagnose my difficulty, rather than to call in an expert on some obscure, little-known malady, for the treatment of which he might wish to make what the doctors sometimes call an exploratory operation.

I do not need to make an application of this figurative way of putting the case, but I do wish to appeal to this committee in the interests of our old constitutional and economic system, that they take the necessary time and undertake the necessary studies to ascertain what fundamental changes will be involved not only in our economic life but in the very fundamental constitutional organization and functioning of our Government.

There are many questions of this sort involved in the proposed legislation, and the need for speedy action at this moment seems to be greatly overbalanced by the need for due care and deliberation.

The CHAIRMAN. We are very glad to have that statement of Mr. Doten.

Mr. Stewart now. Is Mr. Stewart here?

**STATEMENT OF WALTER W. STEWART, MEMBER OF THE FIRM
OF CASE, POMEROY & CO., NEW YORK CITY**

The CHAIRMAN. Mr. Stewart, state your name and residence, and business or occupation.

Mr. STEWART. Walter W. Stewart, member of the firm of Case, Pomeroy & Co., 120 Wall Street, New York City.

Perhaps for purposes of this discussion I should add that for 3 years I was director of research for the Federal Reserve Board here in Washington and for 2 years economic adviser to the Bank of England.

The CHAIRMAN. Well, that ought to qualify you for expressing your views on this bill that is before us, and we will be very glad to have them.

Senator BARKLEY. Did you precede or succeed Professor Sprague?

Mr. STEWART. I preceded him.

Senator GORE. Were you connected with the Bank of International Settlements?

Mr. STEWART. I was only there at their first annual meeting as one of their advisers but never officially connected.

Senator GORE. I thought you were connected with that.

Mr. STEWART. I went to them all at the time of conference.

Mr. Chairman, I would like to confine my remarks to the broader aspects of this bill and comment chiefly on the problems of administration of currency and credit, and some of the economic consequences that I think might follow from this legislation.

The CHAIRMAN. That is quite important.

Mr. STEWART. Fortunately, a good deal of what I would have had to say has been more effectively covered by Mr. Young, and I would like to express my agreement with what he has had to say before the committee.

The most important point to me, as it was with Mr. Young, was to consider whether this can be regarded as a temporary or as a per-

manent piece of legislation. Unfortunately, and I think undesirably, in reading the bill and its proposals, it seems to me to indicate that it has a permanent character, and it is in that perspective rather than in the technical detail of the bill that I would like to see it considered.

Senator ADAMS. Mr. Stewart, might I interrupt there? The question was in my mind while Mr. Young was speaking. That is just how to make some phases of this bill temporary rather than permanent. That is, you have the devaluation clause and you have the passage of title to gold. It seems to me that is almost inevitably permanent. I was wondering whether you had in mind a separation of them.

Mr. STEWART. I think it would require considerable amendment and redrafting, but from any temporary point of view the passage of title to gold would not be required. I should say that if we were certain about defining the limits within which the dollar was to fluctuate, and even if it included a stabilization fund to maintain that, it was not necessary to have further steps with reference to the change of title that seems to be implicit in the bill.

Senator ADAMS. If you want to make it temporary you would practically have to in some way eliminate the taking over of title and the creation of the stabilization fund.

Mr. STEWART. I agree with you.

Senator ADAMS. So that it would mean a very vital change in the provisions of the present bill.

Mr. STEWART. I agree. If it is to be temporary it would have to be limited in scope and limited in time. If it is to be permanent, then it is the most important piece of monetary legislation that has come before this Congress at any time since the Federal Reserve bill and the Federal Reserve Act, both in its legislative procedure, in the direction in which it looked, and in its purposes, different fundamentally from this proposed bill, and it is in that light that I think rather than in more detailed matters that it ought to be considered.

Senator GORE. It took about 5 years to evolve the Federal Reserve System.

Mr. STEWART. A very long procedure, and, as Mr. Young pointed out, there have been some accumulations since in its administration.

Senator TOWNSEND. Would you mind stating what you think the effect of this bill, if passed as it is now written, would be on the Federal Reserve banks?

Mr. STEWART. It seems to me to shift fundamentally the responsibility from the Federal Reserve System to the Treasury in the only matters in which the control of currency and credit really matter, and that is with reference to the convertibility of the currency into gold or in foreign exchange, and to set up a competing influence in the operation of the stabilization fund that is equivalent to an open-market operation. In those two respects it seems to me to nullify, if not to scrap, the Federal Reserve System.

It not only takes that action, but in looking for some executive officer to place the responsibility upon it finds an executive officer which is bound to be subject to popular pressure from time to time, and of course a single lesson which is part of the management of currency is how frequently one has to do an unpopular thing, and

the purpose of having a central bank independent is that it should be free from Government control, but it should have some protection in the management of our currency against the emergency of the moment.

Senator GORE. Didn't have to run for office?

Mr. STEWART. That is right. It not only lodges these powers with the Secretary of the Treasury, or a Secretary of the Treasury, but it increases those powers. The administration of the Federal Reserve System or of any central bank where it is on a gold standard has its actions tested, the wisdom of its actions tested, by the judgment of many men, because the currency is convertible. The moment you remove the convertible features or lodge the decision with some one as to the conditions under which the currency is to be convertible, you are greatly exceeding anything that any monetary system that I am familiar with has ever done, and you have consequently exposed it to that additional risk.

The theory which underlies this bill that the gold should somehow be treated as collateral to notes rather than as a fund of redemption seems to me to completely lose the purpose which gold should have. The function of gold is to test the currency and to test a credit policy. No body of men will ever be wise enough to determine how much credit a country should have. It is a matter of trial and error and experiment, but the test finally comes whether the value of that currency can be maintained by its convertibility either into gold or into a currency of another country.

This bill, as I read it, both in the obscurity of the gold certificate, in the rules and regulations which the Secretary of the Treasury is to define concerning the foreign exchanges, and the vast powers given through the use of the equalization fund makes that test almost impossible.

There is a further fact, in which I think I shall have to say the Secretary of the Treasury, because I am now referring to an existing position. I say it without hesitation, because I do not believe that the theory which underlies this bill can be discussed in the abstract or in a hypothetical fashion. We are already in a situation.

The position is that the terms of this bill are not the only factors in their economic consequence. We have a Budget which requires large financing. We have further powers of an executive character left in the Thomas amendment. If one is to consider the economic consequences of this legislation, one I think must combine those factors.

I should have thought that any executive officer faced with the responsibility of raising \$6,000,000,000 in 6 months had a sufficient responsibility, without adding others of a somewhat conflicting character. I say "conflicting" deliberately, because he is under the necessity of raising this money, and under this bill under the necessity of maintaining the soundness of the money that he raises. I believe that in public finance it is just as unwise to put a large borrower in control of the currency as it has been demonstrated to be in private finance, and any view which runs to the contrary not only overlooks the entire experience in other countries in this matter but overlooks our own very recent experience.

Now, there are one or two features that have to do with the operation of the plan which indicate my view of the theory which under-

lies it. You have already heard from other witnesses the way in which the stabilization fund would work in increasing the member-bank reserves and exposing the hazard, the risk, of very large expansion of credit.

It is always difficult to predict what happens or when it happens. The sound thing to do is to keep the position in such shape that it cannot happen. The risk that the utilization of the credit which this act makes possible is far beyond any calculation that anyone that I have heard talk about can make.

Mr. Young's calculation is quite right, but it is beyond our comprehension really to measure what 10 billion, 20 billion, 30 billion dollars of potential credit can bring about. And when, as Mr. Rogers suggested in his testimony, one tries to work out in detail how it will affect one class or another in the community and the time in which it will work, whether it will be 6 months or a year or two, it seems to me to fall back upon the theory that they are operating in a vacuum and not operating within the forces which are already inherent in the existing position.

The theory, if I understand it, which the proponents of this measure hold is that, first, we should have an artificial depreciation of the dollar in the foreign exchange; that, second, we have a devaluation of the dollar; that, third, we go through a deflation of the domestic price level; and that, fourth, we come to the stabilization at the end.

The first phase I take it we are through. The artificial depreciation of the dollar in the foreign exchanges, initiated by the fact that the country went off the gold standard, precipitated by the flight from the dollar and encouraged by the gold purchasers, has brought the dollar in the foreign exchanges to a 60-cent level approximately.

The devaluation which is suggested here, though not final and definitive, is established under this act within limits, and now we are looking forward to the deflation steps.

That sequence seems to me to rest on the belief that somehow at the end of this particular rainbow there will be stabilization. I think it is a most dangerous illusion. It is an illusion which is tragic in character, because there is a very widespread popular belief that that is what this mechanism can accomplish. There is no more assurance of stabilization at the end of this procedure than there was at the end of similar experiences abroad.

In fact, the process of stabilization can only be significant when you already have achieved something by way of balance internationally and at home. There are undoubtedly limits within which monetary changes can contribute to a business recovery, but that at the end of that recovery human nature will have changed or the economic forces which are controlling the position would have altered and led to some quite stabilized level within which the margin between 50 and 60 will be a controlling element, is an entirely unjustified hope.

The CHAIRMAN. Might this not lead to some international agreement toward stabilization?

Mr. STEWART. It could, conceivably. It could conceivably, on the other hand, lead to such embitterment that international understanding would become still more difficult. The temper of people in dif-

ferent countries is usually to ascribe to a foreign country the embarrassment that they are faced with, if it is only of an economic character.

If, as I believe, this bill undervalues the dollar, and we find that our stabilization fund must be used to depress the dollar in the foreign exchanges, I think that the press and the commentators will make us believe that we are in competition with the British equilization fund, and that in consequence of that we will make an atmosphere for agreement almost impossible.

While I do not question that there are phases here which under proper control and coordination of the kind Mr. Young suggested could make useful the establishment of a permanent agency to take over the functions that are outlined here, looking forward in some vague way to the hope that internationally someone will agree with us, it seems to me, is again unjustified.

Senator ADAMS. Mr. Stewart, may I interrupt just to inquire as to your judgment to the effect of the depreciation policy on the American dollar upon the domestic commerce and finance of this country. Do you look upon that as a beneficial quality?

Mr. STEWART. I am doubtful whether the act of devaluation itself or change of the gold content—

Senator ADAMS (interposing). I am speaking of the depreciation of the dollar.

Mr. STEWART. Yes.

Senator ADAMS. Which has been driven down by gold purchases and going off the gold standard. I am inquiring as to its effect upon our internal commercial affairs.

Mr. STEWART. Yes; I think it is quite clear that for the commodities imported and exported you get a rather adverse response, much less, of course, than with a country where the proportion of its commerce and foreign trade is larger in relation to its domestic trade.

Senator ADAMS. If we seek to purchase abroad, we get less for our money.

Mr. STEWART. Get less for our money, but that will affect the price in dollars of the rubber and tin that we export, and it also applies to the articles that we sell.

But it has yet to be demonstrated that the proportion of our foreign trade with reference to our domestic position is of sufficient importance to lift the entire domestic price level. The inflationary elements here arise not to my mind from a change in the gold content but from the banking effect of the utilization of the stabilization fund, which presses upon the banks the large amount of money, which, plus the financing of the Budget deficit, gives you the probability that, once the process is under way, it will not be subject to control—beyond the control, I should say—of any governmental agency.

Senator KEAN. The devaluation of the dollar has been pressed down from the time we went off the gold basis till now. They have continually encouraged the flight of capital abroad. They have continually, so I am told, done something to depress the value of the dollar. Naturally, if that is stopped, why, the dollar would go up, would it not?

Mr. STEWART. There are a great many factors which are behind this, the reversal of which would tend to make the dollar much stronger than it is.

Senator KEAN. Therefore, are we not depressing the dollar further than necessary when we talk about 50 or 60?

Mr. STEWART. Well, in my judgment, the operation of the stabilization fund will itself demonstrate the fact that we have adopted a percentage on the dollar which will be difficult to maintain.

Senator KEAN. And therefore they would lose the \$2,000,000,000?

Mr. STEWART. They would utilize it.

Senator KEAN. I say they would lose it?

Mr. STEWART. They would spend it in that direction. Of course, it would lead to an investment in foreign exchanges.

Senator KEAN. And they would lose the \$2,000,000,000 probably?

Mr. STEWART. Might.

Senator BULKLEY. Now, Mr. Stewart, when you say that this might lead to an inflation which could not be controlled by any Government agency do you base that on the proposition that the use of this stabilization fund would increase the reserves of the member banks?

Mr. STEWART. Plus the necessities of the Government operation; on the one side the supply, on the other side the urgent demand.

Senator BULKLEY. Yes. Now, what if the Federal Reserve Board would increase the reserve requirements of the member banks? Would that not put it under control?

Mr. STEWART. Legally that is power. I am doubtful as to whether, with the powers here given the Secretary of the Treasury, it is to be assumed that the Federal Reserve Board would exercise powers that are obviously running in counter direction.

Senator BULKLEY. Then it is not true that it would really be beyond the control of any Government agency, but you would simply infer that the Government agency, which had plenty of power, would use it; is that right?

Mr. STEWART. It is a legal power—I do not know that I would even say that it was within their power. You keep on increasing the member bank reserves.

Senator BULKLEY. Why isn't it? It says so in the law. What would stop it?

Mr. STEWART. As far as member bank reserves increases are concerned, you are right. If you are right, it follows that the Government would not be able to do its financing by the extension of bank credit, and while it is confronted with the fact that it cannot finance by extension of bank credit the pressure brought upon any Government agency to stand in the way of that fact would be beyond control, in my judgment.

Senator BULKLEY. I do not quite follow your logic, because the bank reserves could be raised as much as necessary. They do not have to be raised extremely.

The CHAIRMAN. It is to limit the bank credit, then.

Senator BULKLEY. Yes. I cannot see why it could not be done reasonably. Whether you predict that it will be done reasonably or not is another matter; but when you say it is beyond the power of any Government agency to control it, I do not quite follow you.

Mr. STEWART. Yes, sir. I think I would like to modify that statement. I think, assuming that we take it simply on a legal basis and not on the question of whether or not it will be exercised, on a legal basis I think the authority of the Reserve Board to modify the reserve requirements would cancel the effect of the equalization fund, building up month by month a fund sterilized by a fund, say, of 3 or 4 billion dollars.

Senator STEIWER. In other words, your one Government agency would be operating in one direction and another agency operating in another direction simultaneously?

Mr. STEWART. They would be confronted with the necessity of making that choice.

Senator BULKLEY. The point is the expansion of credit would be an incidental effect of the Treasury operation which could be offset by the affirmative action by the Federal Reserve Board.

Mr. STEWART. Quite true.

There is very little more that I wish to add on this aspect of the matter. I am quite willing to try to answer more technical questions.

In conclusion, whatever the intention of the bill may be, I find it difficult to believe that it is primarily a stabilization or a devaluation bill. It seems to me to be a profit-taking bill.

Senator GORE. A what?

Mr. STEWART. A profit-taking bill—a bill aimed at taking the profit derived from devaluation. This seems to be not an appropriate time to take that profit, and I question the usage to which it is going to be put. I grant the right of the Government to take the profit. It seems to me, however, both unnecessary and unwise to dispossess the Reserve System of its gold and to transfer to the Treasury the responsibility for the credit and currency control of the country.

Senator WALCOTT. Would you be unwilling, Mr. Stewart, to transfer such portion of the gold now in possession of the Federal Reserve as might be covered by devaluation of the dollar when we know what that is, 60 or 50?

Mr. STEWART. I would not be opposed to it, but it would seem to me wiser to transfer the credit that arises than to transfer the actual possession.

Senator WALCOTT. And to leave the gold with the Federal Reserve?

Mr. STEWART. Yes.

The CHAIRMAN. What would be the disadvantage of turning possession of the control and title of the gold into the Treasury?

Mr. STEWART. Because it transfers the authority and control over the currency and credit system of the country, as this bill stands; because it leaves with the Secretary of the Treasury the right to determine the basis of convertibility of the domestic currency, and the final test of the currency is what can it be converted into, not merely the question of its convertibility, but the final test of the currency's position; the limits imposed upon the growth of credit arise from the freedom of convertibility.

Senator WALCOTT. Is it your opinion that, speaking from the side of the Federal Reserve System, this proposed payment of gold certificates is not just compensation?

Mr. STEWART. The provisions in the bill with reference to gold certificates are most obscure. I should agree with Mr. Young that

in order to have a currency convertible it must be at the option of the holder of the certificate and not at the option of the holder of the gold.

The CHAIRMAN. Do you see any difficulty in the Reserve bank system operating if this were done, transfer of the gold to the Treasury?

Mr. STEWART. Yes; I see not only the conflict that it seems to me likely to arise, but apart from the mere shadow of itself a mechanism functioning as a clearing agency which has not any of the authority left for the control of the credit and currency position.

The CHAIRMAN. It can issue currency just the same?

Mr. STEWART. It can stand ready to offer currency to any comer who asks for it in redemption, but the important fact about the Reserve System is not its capacity to issue currency but its capacity to influence the direction and volume of change in the credit of the country, and that I should regard as having been fatally impaired by this legislation.

Senator GLASS. Mr. Stewart, I call your attention to this fact, that the proponents of the Federal Reserve banking system rejected the proposal of a central bank because it was deemed more effective in the interest of business to have regional banks, or you might call them regional central banks, with some degree of familiarity with the credit necessities of their particular territory, and these banks are operated by tested and experienced bankers who know what credit is, who are assumed, at least, to know when credit should be increased, and when it should be decreased, and upon what security it should be granted at all.

Under this bill all of those functions are transferred—well, I wouldn't say transferred—are given to the Secretary of the Treasury, without any facilities for gaining this territorial information as to credits and so forth, and it would utterly, as I conceive, emasculate the fundamental idea of the Federal Reserve banking system.

Mr. STEWART. I agree, Senator. I think that is more important than the actual possession of gold, is the transfer of authority, which is really the essential feature of this bill to my mind, and ultimately I think it will embarrass the man who receives the responsibility. It is a most delicate business to manage the credit and currency of the country. A great many conflicting interests would converge upon the decision of that man. The best protection the community has is that those varied interests would be represented in the decision, which is what the Federal Reserve System provided. Let those conflicting interests converge upon an officer of the Government, unprotected by an understanding which is arrived at when men are consulting with one another, and to achieve the ultimate discretion of them is such a fundamental change that I do not see how the Reserve system in its present set-up has any chance to function side by side with an agency of this kind.

Senator WALCOTT. And may it not be added, isn't it fair to add, that that man's risk is more than doubled because the same man is doing the borrowing and the spending? There is a complete conflict of interest?

Mr. STEWART. There is a complete conflict of interest.

The CHAIRMAN. What is the effect and the ultimate result of the exercise of the power of fixing the rediscount rate of the Federal Reserve banks?

Mr. STEWART. When there was a large amount of borrowing of the Federal bank, changes of discount rates were instituted. As it is now there is almost no borrowing of the Federal Reserve bank, but the possession of Government securities in their place. So that the change of the discount rate of the Federal Reserve bank under present circumstances would be quite ineffective.

The CHAIRMAN. Ordinarily what is it?

Mr. STEWART. If there is a large amount of borrowing, then it is thrown back upon the member banks, so that that would affect the situation.

The CHAIRMAN. This bill does not interfere with that power, does it?

Mr. STEWART. It does not interfere with the power of the discount rate, but does cancel effective open-market operations.

The CHAIRMAN. Are there any other questions to be propounded to Mr. Stewart?

Senator STEIWER. You characterized the bill a little while ago as not being primarily a devaluation or stabilization measure.

Mr. STEWART. It is not, in fact.

Senator STEIWER. What is there in the bill that you feel justifies you in making that characterization?

Mr. STEWART. My reason for thinking that is that the range of a 50- to 60-cent dollar with the expectation that that will stabilize the general level of prices; and the taking over of the gold into the Federal Reserve System, and the putting of this expression with the Secretary of the Treasury, none of them as it seems to me is essential to an act of devaluation. They have never been essential in any other country.

Senator STEIWER. How much stabilization will result from the system that leaves a latitude of 10 points, that is, from 50 to 60?

Mr. STEWART. In my judgment it is a false promise that the commodity price level, the purchasing power of the dollar over commodities, could be made stable by that device. It is unsupported by theory, and impossible to demonstrate by experience. In my opinion it is a false hope.

Senator STEIWER. If we are to assume that it is not good to leave that latitude in the weight of the dollar, would you suggest any different plan or any other limitation than is suggested in this bill?

Mr. STEWART. Assuming proper administration, the only plan that recommends itself to me is to fix a weight of gold into currency, convertible upon demand, which if followed is a tremendous force. Sometimes it becomes embarrassing to show it, and when it becomes embarrassing it is ignored.

Senator STEIWER. You say if you were charged with the responsibility of rewriting the bill, instead of leaving a latitude of 10 points you would provide that devaluation be a certain, fixed, and permanent figure?

Mr. STEWART. Yes.

Senator STEWART. Wouldn't that expose you to the difficulties inherent in an effort to bring about international adjustments?

Mr. STEWART. I do not believe so. I think the only chance of international adjustment is for some country that can afford to make the decision to do so. So long as we await joint decisions, I think no action will result. No country has ever gone back to the gold standard in collaboration with another country. The conflict of interests is always there. So if we took action pending action by somebody else, each one leaving it tentative, I see no final decision.

Senator TOWNSEND. They talk but make no decision.

Mr. STEWART. Yes, sir; leaving it impossible to reach a decision. Senator GORE. With a zero of possible gold.

The CHAIRMAN. But Great Britain had no difficulty with other nations when she created her stabilization fund and forced the pound down.

Mr. STEWART. There was a great deal of discussion caused by it, but as to any belief about the operation of the British stabilization fund, as about our own, it is not so much the effect in modifying fluctuations but in the matter of determining the fund. Just as the British gold reserves exhausted themselves in the attempt to hold sterling at an artificial level before they went off gold. So that while you can modify and alter the fluctuations, the attempt to resist the trend with world forces pitted against you is that which makes it very expensive.

Senator TOWNSEND. Has any country of the world ever attempted an experiment similar to this bill?

Mr. STEWART. Never.

Senator TOWNSEND. And therefore we have no experience by which to be guided.

Mr. STEWART. No. But I might add——

Senator TOWNSEND (interposing). It is all theory.

Mr. STEWART. I think so; yes. But it is presented by high-minded men, whose integrity I do not question. On the other hand, I believe they lack an understanding of proper credit administration.

The CHAIRMAN. I think that is all, Mr. Stewart. We are very much obliged to you.

Mr. STEWART. And I thank you.

The CHAIRMAN. Mr. Janney, will you come around to the committee table?

STATEMENT OF JOHN JANNEY, CHAIRMAN OF THE EXECUTIVE BOARD, AMERICAN SOCIETY OF PRACTICAL ECONOMISTS, NEW YORK CITY

The CHAIRMAN. Mr. Janney, will you please state your name, residence, and occupation or profession?

Mr. JANNEY. My name is John Janney and my residence is Willard Hotel, Washington, D.C., office 1551 Fifth Avenue, New York. I am chairman of the executive board of the American Society of Practical Economists.

Senator GORE. I see that you use the term "practical economists." Do you distinguish practical economists from theoretical economists?

Mr. JANNEY. It is a society of practical economists, an organization that was formed during the war, when this condition we now

have was anticipated, and the thought was to have in the Versailles Treaty some provision for a stabilized monetary basis for the world. And the recommendations of that organization at that time are set out in--well, in order to save the time of the committee I might place in the record a statement I made before a committee of the House of Representatives on April 12, 1932. It will save a great deal of time.

The CHAIRMAN. That may be inserted.

Mr. JANNEY. The American Society of Practical Economists was organized during the World War. It arose out of what appeared to be a necessity for having the views of practical economists made available.

Those who are eligible to membership in the society are men who have founded an industry, or who have established a business, or who have developed a resource, or who, as builders or contractors, have constructed works in excess of \$1,000,000 in value which they have had to finance. The idea was to mobilize a force in the Nation to be a counterbalance to the theoretical economists. I do not intend anything I may say to have any seeming reflection on the theoretical economists. The theoretical economist performs an essential service. I do not think they are the ones to be blamed if they arrive at conclusions which are not correct. We all do that. On the contrary, I think it is we who are to be blamed if we take the statements of the theoretical economist at above their true value. Unless in reaching our conclusions we are careful to consider the same factors that stern reality will apply we will generally find ourselves in the wrong. For some strange reason, it seems entirely natural for theoretical students to get quickly to conclusions and then draw diagrams and pictures to suit these conclusions.

If we chose to take the conclusions of theoretical men as our guide, without challenging and analyzing and subjecting them to the test to which they will be subjected by events, then I think it is we who are at fault. The present situation is critical. And if we will know the truth about it, we must search for it. It is necessary that we bear a critical attitude. I hope I will not hurt anyone's feelings in trying to do this.

During the war it was inevitable that hundreds of thousands of men must die; and hundreds of millions and even billions of dollars be wasted, unless the fundamental facts of economic law were to be given full validity.

Moreover, all wars in their essence are economic wars. I do not believe there has been a war since the war of the crusaders that has not been in its essence an economic war.

There are two forms of economic war: One takes the military aspect, and the other takes the aspect where a nation without resorting to arms, takes steps to protect its economic interests without equal consideration of the interests of other nations. Such an economic war is now in progress.

The United States is a great producing nation. It has great producing areas. It is equipped to help supply the outside world. Its fundamental industry is productive industry. The profit that accrues to productive industry, distributed among the other industries and occupations, as it percolates through, is the grist in our industrial mill.

If we permit the profit from productive industry to be wiped out by destroying our trade or by any form of manipulation on the part of other nations, that is destructive to our productive industry, we are neglecting the duty which the Government owes to its people. That is exactly our situation today and that is what we are investigating under this resolution, as I understand the resolution.

I think it might be proper for me to say here that just before the Versailles Conference, it seemed apparent to the Society of Practical Economists that these conditions which we now have under consideration were inevitably going to follow the war. It might be appropriate to offer, for the purposes of the record, a copy of a letter written on the 7th day of January 1919 to the Prime Minister of Great Britain. It might tend to simplify matters and remove some of the mystery that surrounds this subject to show this situation was fairly well visualized in January 1919.

Some paragraphs from this letter, with your permission, I will read:

Whereas the present occasion presents the first opportunity yet offered to the world to procure by statesmanship the complete liberties of the people, whereby governments and peoples gain control of the economic basis of their life:

We, the American Society of Practical Economists, having faith in the far-sighted statesmanship of Britain, which has ever guarded civilization in such times, and especially having confidence in the alertness, sagacity, and power of purpose of the present, the honorable Price Minister of Great Britain, wishing modestly and yet with utmost earnestness of purposes to bring to bear the experience and research of this society to the end that the real and basic cause of this and other wars may not longer continue to exist, and that a league of nations may become a practical fact rather than a theoretical dream.

Now, therefore, we beg leave to call to your earnest careful consideration, a responsibility that we most respectfully ask will not be delegated to others, until after this paper is first fully read by you, the following fundamentally basic, constructive, and, we believe, necessary measure, founded on proven principles now in actual operation, that if applied by the Paris peace conference to the present situation will bring greater benefit to humanity than any measure since the Magna Charta.

We venture to suggest that no matter for the consideration of the peace conference can be of equal importance. What we treat with here is a basic cause, other matters being considered are results and indirectly results of the very condition herein proposed to be remedied.

Following that, among the purposes in view which are listed on the second page of this letter I will read:

In order that the Paris peace conference may secure the economic liberties of mankind.

In order that the peoples of the world may have satisfied all reasonable demands for economic justice to the end that Bolshevism and other forms of radical socialism may not be called for as a by-product of our civilization.

In order to take advantage of the powers and opportunities of this international conference to the end that the economic conditions of the world may be normalized and stabilized during the reconstruction period and longer if found desirable by the nations. Also to provide a means to free exchange rates, a necessary factor in all foreign commerce, from manipulation and private control.

In order to provide a sound, just, stable, and permanent basis for the economic affairs of the world.

In order that nations newly formed may be enabled to exist in some measure of economic freedom in the face of the inevitable gold-reserve situation.

In order to avoid the economic war that must follow in the present situation from the efforts of each of the great powers to maintain and increase their gold reserves to a point called for by the enormous war debts that they have

incurred and the commerce that will be required to offset these debts, to avoid the necessary consequences of this in armaments.

In a word, to make possible peace in the world and to make practically a League of Nations to enforce that peace.

Then follows a proposal for an international reserve bank, and for a means of economic stabilization.

Later, after a long delay, under the Young plan, something of this kind was proposed as a part of the machinery for war settlements, but the stabilization of basic money has not as yet been worked out. I think now we have come to the practical consideration of that problem.

There was also some correspondence on this subject with the White House and interviews with representatives of foreign governments at Washington, including France and Great Britain. I feel very sure that the present critical condition in the world could have been to an important extent avoided if this or some better stabilization plan could have been worked out as a result of the deliberations of the peace conference.

My months of study of this subject during that time, in conference with the representatives of these various foreign governments, convinced me that there were nations whose economic interests are opposed to stability of money values. They hold and use the power of manipulating these values to their advantage, and to the disadvantage of other nations whose basic business is productive industry. For this reason a world conference, where united action would be required, is worse than useless.

Mr. JANNEX. I am not going to take the time of the committee at this meeting to go into anything except the economic aspects of this bill. I am very much in favor of the objectives of this legislation. I am very much in sympathy with the policies of the President as he has announced them. That is to say, to have a price level, which he fixes at the 1926 price level—to have that or some price level that will give a profit to the business men and the producers of raw materials in this country.

I am very much in sympathy with a stable world money. I am in sympathy with a stable currency, as the President expressed it, of having the dollar of buying power the same for this generation as for the next generation.

I have listened here with a great deal of interest to the questions propounded and the answers made. I should like very much to contribute to the study of this bill by going into the fundamental economic situation that I think it develops, but I feel discouraged in the thought that so much of a burden would rest upon my shoulders alone, too much to attempt to point out what I believe to be the very serious dangers of this bill.

A number of questions have been asked by you gentlemen here which show that you evidently understand if you sell a bushel of wheat for twice as many dollars, and that each dollar has half that much value, you are not increasing what you are getting for the wheat. There is a distinction here between value and price.

I almost have a chill whenever I hear these men say they have increased the value of gold from \$20 an ounce to \$34 an ounce. I have been so much concerned over that proposition that I have had charts made, which I have here with me, but probably we will not

have the time to go into them. But I did that to find out just what was the trend of prices in this country.

Now, gentlemen of the committee, commodity prices have gone down steadily for the last 3 or 4 months, according to my calculations, which I believe to be accurate, if you have the same yardstick of measure to measure those prices. Of course, if you are measuring—

The CHAIRMAN. How much have they gone down?

Mr. JANNEY. Do you want to see these charts, Mr. Chairman?

The CHAIRMAN. No. Just tell us how much they have gone down.

Mr. JANNEY. Well, they have gone down quite steadily and quite substantially, slowly and gradually. The dollar, of course, has gone up to such an extent that it makes it invisible if you measure it in dollars. The way I feel about the talk in regard to the matter of improvement in prices is very much as though a dealer in merchandise were permitted to fill up a part of his bushel measure with a blank form and then to make the statement that he has more bushels on hand. I think we are dealing with dynamite in this proposition unless we get our feet down on the ground and know what we are talking about. The terminology that has been developed in the discussion of this question is such that it is almost impossible, where two men converse with each other on the subject, for either to understand what the other means by what he says.

Gentlemen of the committee, the fundamental thing here is a conflict between a basic money and a managed currency. We have had 5,000 years' experience in the world with sound money. That is to say, with money that represents a cash transaction. You sell me a bushel of wheat and I give you a dollar, and that dollar has the same value as that bushel of wheat. That is to say, that the dollar of money had intrinsic value. When we abandon that principle of sound money, which is to say money that does not involve a promise to pay, we are launching out into uncharted seas.

Now, I am going to venture a prediction—

Senator GORE (interposing). And a good many wrecks are afloat in that sea.

Mr. JANNEY. I beg pardon, Senator?

Senator GORE. You say we are embarking upon an uncharted sea, and there are a great many wrecks afloat on it, I take it.

Mr. JANNEY. Yes; and a great many wrecks are going to be afloat on it. When we start out here with a managed currency here is my prediction: We are not going to find that this stabilization fund is going to be satisfactory. It is going to be operating against natural laws. We are going to find that natural law will go in one direction and the stabilization fund will go in another direction, and we are going to arrive at a certain period of time before very long where, in order to get some basis of definiteness in this dollar we are talking about, we are going to make a treaty of some kind with Great Britain, and we will tie the dollar to the pound.

Now, the thing I was talking about when I said I hoped I would not have to take the responsibility of pointing to the dangers of this situation, meant that this is one of the points I was very anxious to see someone else cover. But if we do that, gentlemen of the committee, I am impressed with the power of Great Britain to manage

the value of sterling; and on account of the colonial possessions of Great Britain, on account of her shipping, on account of her control of the commerce of the world, and with the number of nations not colonies of Great Britain, but which are getting the habit of dealing in sterling, we will find, so far as the dollar and sterling are concerned, sterling will be the dog and the dollar will be the tail.

Now, if we were looking at this thing from the standpoint of the financier and the banker and the wholesaler and the merchants that deal in exports and imports, I would not view that thing with any particular concern. But when you get to the fundamental economic basis of the situation it means that by the control of the value of sterling Great Britain will by that means be able, through her control of the dollar attached to sterling, to control the value of our property and the value of our products.

We have seen here in the last few years a tremendous fluctuation in the value of our property. I guess \$100,000,000,000 at least would be required to readjust the depreciation in value of property in the United States. The value of our commodities has fallen off to a point where it has practically bankrupted the producers of those commodities, and those engaged in such production were principally the farmers of the United States; and we have now addressed ourselves to the problem of raising the price level. And as soon as our people become educated to the fact that we need to raise the price level then the issue is switched and, instead of raising the price level in terms of values, we propose to raise the dollar in the terms of nomenclature.

Senator GORE. In terms of what?

Mr. JANNEY. In terms of nomenclature. We changed the name. If you take 50 cents and call it a dollar and sell a bushel of wheat for 50 cents, which you call a dollar, you are changing the nomenclature of what you sell.

What we need today in this country is to change the value of what we produce. We send a bushel of wheat to England and get 2 shillings for it; what we want to do is to get 3 or 4 shillings for it. We want to get more for the products that we raise in terms of wealth of the world and in trade with foreign nations. We must export wheat and cotton and the surplus of other commodities and we must realize it is the price we get for that surplus that determines the value of what we have at home.

We have a tremendous conflict between nations that want a low price level, and nations that want a high price level, and the thing that alarms me most of all is the fact that that question cannot be brought out into the open in discussions, like the London conference they have just held.

The English, when they went off gold, dropped sterling down, and you can see on the chart that it went down until it got to the level they wanted. It went to the 1913-14 price level. That price level will assure Great Britain prosperity. But the United States cannot prosper on the 1913-14 price level. We must have a price level approximating the 1925-26 price level. And if we borrow 6 or 8 billions of dollars this year to carry us through this year, and 6 or 8 billions of dollars next year to carry us through next year, we must have a higher price level. (See chart 1, p. 378.)

I do not think this Congress should deceive itself in thinking it is getting a higher price level by this devaluation of the gold dollar. I think the Congress should be absolutely frank with itself on that point. I do not know of any student of that question who really thinks down to the bottom of it but who realizes that when we change the gold content of the dollar the only practical effect there in favor of the producer is that he is getting the debt he owes paid in a dollar of lesser value.

Now, so far as the Nation is concerned, are we benefiting our situation when we transfer this burden that heaps itself upon our shoulders because we are operating at a loss, when we transfer that burden from one class within the United States, which is the debtor class, to another class within the United States, which is the creditor class? Are we by that means getting anywhere as a Nation?

Now, let us take the insurance companies. Is this devaluation of the gold dollar going to affect the insurance companies? Well, won't that come right back on the same people? It seems to me this subject should be approached from an entirely different angle, and studied right down to the bottom of that angle, which is to say that we are a great producing Nation. We do not want to consider price level only in name, but in reality and in fact, and that the price level has been manipulated or controlled by those nations that are interested in having a lower price level.

Gentlemen of the committee, why can't we be frank with ourselves and with each other, and frank with these other nations, and admit that to be true? I don't think any thoughtful person would criticize the European nations for taking the actions which they took, and which have resulted in increasing the value of gold around something like 65 or 70 percent. I think they did that thing wisely. I do not believe they intended the result that has come about, but they did intend, I feel very confident, to do in a general sense what they did when they lowered the price level.

Now, if we see ourselves facing a situation where we need stabilization, why can't we see two courses in front of us? One, to stabilize our dollar, and the other, to stabilize the values of our property in terms that are real.

If we were not a great exporting country, if we did not produce in excess of our requirements, if the quantity that we ship out of this country of cotton and wheat and copper and other commodities which we produce did not determine the value of what we have at home, why then we could go in for stabilization of our currency. But if the value of what we ship out of the country depends upon what we get from other nations to whom we ship, in terms of world money, then we must consider the problem of stabilizing world money. It seems to me there lies the basic fundamental fact.

Now, then, the question is: How can we stabilize world money? How can we stabilize the buying power of the ounce of gold?

I heard before the committee of the House of Representatives, before whom I appeared this week, a series of statements made to the effect that this legislation is going to change the value of gold, that it was going to change the value of an ounce of gold, that it is going to stabilize the value of an ounce of gold. Now, those statements

cannot be seriously made. They cannot be sustained. We are not changing the value of an ounce of gold. The value of an ounce of gold is how much an ounce of gold will buy.

If this Government is going to be led into error, into mistake, by fastening upon the creditor class a burden which neither the debtor class nor the creditor class can carry; if we are going to make the mistake of failing to recognize the importance of the problem of a sound world money system, and then attempt to adjust because of that mistake, we are going to face the most serious situation this country has ever faced in its history, because we are going to go into the morass, and in order to get out of that we are going into another, and will be going worse in the mire the further we go.

The value of gold has been seriously dislocated. I do not think there is any doubt about that. Now, then, how would we adjust that? To my mind in any problem—and I am an engineer by profession—the way to adjust yourself to a problem is to find the cause of the trouble. When you get down to that you have gold that is dislocated in value, 65 to 70 percent above its value, and you have been using it as a yardstick. If you use any measure as your standard, and we have had the gold standard; any form of measure as a unit, whether in distance, weight, or volume, you must protect it. Gold has been dislocated in value and we need to protect it. If we will protect gold and go back to the gold standard and use gold as a standard, and maintain it as a standard, we can successfully compete with England on a managed currency basis. Otherwise we cannot.

Now, how did gold get dislocated in value? You have the simplest formula in the world to determine the value of gold because it is a supply and demand ratio, and as an enumerator of the fraction you have the demand for gold, and in the denominator of the fraction you have the supply of gold. If the value of peanuts, wheat, or anything is changed it is because there has been a change in either the demand or the supply of that commodity.

Senator GORE. Or of money, would you say?

Mr. JANNEY. I am speaking now of gold, and that applies also to credits and currencies. I suppose you would say currencies, promises to pay.

Senator GORE. No; I had in mind then the supply of gold and the demand for gold, which would be the forces as I understand you.

Mr. JANNEY. Yes. Anything, and I don't care what it is, it may be Federal Reserve bank notes, or Treasury notes, or French francs, or English pound sterling, the value depends upon the supply and demand ratio. When we had in 1926 the value of gold under a demand and supply ratio of 100 in our scale, and that value went up to 165 the value increased because not of any change in the supply of gold, but in the demand.

We do not have to hesitate in our statement about that. We know that the supply of gold did not change materially. It certainly did not change sufficiently to make a difference of 65 percent. Therefore we know the change came about because of an increased demand for gold, and the increased demand for gold is affected mainly by your credit structure. Your credit structure consists of the tremendous

outstanding short interest in gold obligations, payable in gold, and largely payable upon demand in gold. Now, if you have something to happen that causes a calling of that demand, if you have runs on your banks, or if you have a run due to the sale of securities, on the stock market, that is going to create the principal force that dislocates the value of gold.

The unfortunate part of our situation so far as the credit structure is concerned is that if something can be made to happen in the world that gives you an increase as much as 10 or 15 percent. Then a call for gold comes about, whether from the sale of securities, or the sale of real estate, or the sale of bonds, from the fact that by putting these into the form of money you get that profit.

I am not going any further into that because it is getting into a technical discussion, but if the United States of America can take hold of that ratio and do something to control gold value, so that the demand and the supply doesn't vary, you can go back to gold and you can use gold as your standard, and the nations of the world will prefer gold money or gold values in money to any form of printing-press paper money, even to sterling.

You have these two courses in front of you: One is, to restore gold to its function as money and maintain it as a standard. And the other is, to go to a managed currency. If you go to a managed currency you will wind up with an agreement with England and England will control your price level, and you will never have prosperity in the United States, such as you are entitled to.

Gentlemen of the committee, you can figure that out for yourselves. You are going to have the 1914 price level because that is the price level England wants, and England can get it. You can just sit down and figure it out for yourselves, how England can issue sterling and buy Government bonds in England with it and put the value of sterling down. And when they get to the 1914 price level they can stop. Then we come around and we agree that the dollar will be on the basis of \$4.20 or something of the kind, and that is where the dollar will stop, and we are right in the hands of those expert manipulators of the value of sterling.

Now, just think for a minute of the dangers that lie in the wake of this proposed legislation. We can take a profit of 4 billion dollars from this gold, and that is another thing that gives me a chill. It is like having an apple, and I divide it into four pieces, and I say this is profit and I will take these two pieces because they are profit.

If the Federal Reserve gives up that 2 billion dollars of gold, or whatever it is that they give up, and then we calculate at the present time on the present price of gold, 170, which it is, or about that, and if we compensate them with these certificates at 170, and then England should sell 100 million dollars of gold on the market, and then wait a few weeks or a month and sell another 100 million dollars of gold on the market, and bring the gold down to the level they want, which is the 1914 price level, then they are in position to go back to gold sterling.

Senator WALCOTT. Do you recall what that level was, about, I mean?

Mr. JANNEY. About 30 percent above sterling. That is, sterling at the 1914 price level was about 30 percent below gold. And then

the 1926 price level was about 30 percent below that, in terms of gold, I mean. You say below when you mean gold, but if you are speaking of commodities you say above.

Now, gentlemen of the Committee, what are we going to do when that happens? The Federal Reserve banks will hold these certificates, which are 30 percent below. If the Government proposes to come in they will have to give that much gold back to the Federal Reserve. In the meantime they have used it in this fund. Now, there is one of the dangers that lie in the wake of this bill.

Another danger is this: Here you have a dollar that is devalued 40 percent, to between 50 and 60 percent. That 50 or 60 percent devaluation of the dollar is predicated upon the fact that you have at the present time a certain purchasing power of gold. What are you going to do with that gold when it goes to the 1914 price level? You are putting into your law here a provision that the Secretary of the Treasury is tied hand and foot and cannot change that value above 60 percent, and you have a depreciated dollar. You are figuring now that you will make your dollar of normal value, and you are putting into your bill that the Secretary of the Treasury is not free to keep it at the normal value of the dollar.

If we were interested in low price levels you would have, I should say, a very scientific piece of legislation. But inasmuch as you are interested in a higher price level, how in the world are you ever going to maintain a higher price level?

Of course, you can fool yourself into thinking you have a higher price level by calling 50 cents a dollar. That is all right until you wake up. When are you going to wake up? You are not going to wake up except after a period of months because of the deception going on in the way you keep your books.

For instance, to illustrate this thing and make it more understandable, let us say that we devalue the gold content of the dollar and make a quarter of a grain a gold dollar. Then a bushel of wheat that normally sells for a dollar will bring \$100; \$100 would be your price for a bushel of wheat because there is enough gold in a dollar, or that belongs in a dollar, and therefore you would get \$100 for a bushel. Then you go to a store that sells shoes, and when you walk in you say: What does that pair of shoes cost? The man will say \$5. That man bought that pair of shoes 6 months ago, and under the system of bookkeeping that we have he is perfectly willing to sell that pair of shoes at \$5, because it readjusts the profit, considering what he paid.

You come out with a pair of shoes worth five bushels of wheat, and you have \$95 still in your pocket and you are completely happy. But how long is that going to last? The day is going to come when you go into a store to buy a pair of shoes and you have got to pay the value of 5 bushels of wheat or \$500 for a pair of shoes.

We have all these statistics and all these charts built up by these experts that incorporate that error in every one of them, and we are about to pass a piece of permanent legislation that is founded upon an erroneous hypothesis.

Senator STEIWER. Would it bother you if I were to ask the Chairman a question?

Mr. JANNEY. No, Senator.

Senator STEIWER. Will you have other witnesses tonight, Mr. Chairman?

The CHAIRMAN. No; we are about ready to adjourn.

I take, it Mr. Janney, that you are for a sound currency and an adequate currency?

Mr. JANNEY. I am for sound money. I am not of the opinion that we can get along with any kind of currency unless it is based on sound money. I distinguish between currency and money, because money is gold or silver, and currency is where there is a promise to pay from some bank or the Federal Reserve or the Treasury, some promise at a later date to deliver for that piece of paper.

Senator GORE. Cutting the dollar in two and multiplying the number of dollars really increases the debt-paying power without increasing the purchasing power, does it not?

Mr. JANNEY. That is right.

Senator GORE. I think this illustrates your point, perhaps. Suppose a bale of cotton today is selling for \$50, in round figures. That is 1,160 grains of gold. We devalue the dollar 50 percent, and a bale of cotton sells for \$100, but still 1,160 grains of gold?

Mr. JANNEY. Yes.

Senator GORE. Under the gold system the price of a thing is what it will bring in terms of grains of gold?

Mr. JANNEY. Yes.

Senator GORE. We talk about gold now being \$34 an ounce. That is really not the truth, is it?

Mr. JANNEY. That is a false way of expressing the idea.

Senator GORE. The dollar has gone down, and the purchasing power of gold has varied very little?

Mr. JANNEY. Only about 5 percent in the last 6 months.

Senator GORE. Since it is now at \$34 instead of \$20.67 the purchasing power is the same?

Mr. JANNEY. Yes.

Senator GORE. So the depreciation is in the dollar and not in the gold?

Mr. JANNEY. Yes. We have a corner on gold, and as I read this bill it does not break that corner, but on the contrary it commits this Government to a policy of increasing the pressure on the corner, because the Government is going to increase its purchase of gold for the purpose of keeping the dollar low in value.

Senator GORE. You stated a case a while ago under which England would bring to pass a price level and we would have to debase to that, and that would be a system which would bring about low prices in this country rather than high prices?

Mr. JANNEY. Yes, sir.

Senator GORE. When that day arrives, would you not expect another agitation to devalue the dollar?

Mr. JANNEY. I would expect another agitation, and then I would be fearful that Congress would pass a law changing this law, and then the President would veto that law, and by that time we might have a different President and the power would be so tremendous that we are now conferring upon the central government under this bill that we would not be able to procure a two thirds vote in the Congress, and with the mass of the people very much in favor of a

change of the law we would not be able to effect that change. I believe the pressure is going to be terrific, and I believe we are inviting revolution.

The CHAIRMAN. Is there anything else, Mr. Janney, that you particularly desire to mention?

Mr. JANNEY. I would like to make one more statement, Mr. Chairman. I have a chart here which answers the questions, I think, very well, that were asked Professor Warren as to the relation of commodities to money. I am sorry that this chart is not big enough so that the members of the committee can see it, but this lower line [indicating] is the value of the money of the world, the money base of the world, which includes all the gold and all the gold equivalent.

The trouble with the charts that I have seen on gold is that they do not include gold equivalent. You cannot omit to include gold equivalents from any study of the value of gold, because anything that is in competition must be included when you consider the supply and demand factors.

Senator TOWNSEND. What are the equivalents of gold?

Mr. JANNEY. The monetary silver of the world. If you will read what Mr. Montague Norman stated when he was questioned before the Hilton-Young Commission at the time that England was contemplating its action in India as to silver, you will find that he said "there is an interaction between gold and silver." He said "if you pass this law", referring to this Indian bank law, "there is going to be this result because of the interaction between gold and silver." The sale of silver is going to depress the gold value of the gold equivalents; which it did.

It is represented in this curve. [Indicating.] Commodities started out exactly the same, but 12 months later dropped exactly in the same proportion and stopped when this stopped. [Indicating on chart.] When the monetary base went up, it went up, and when the monetary base went down, it went down. (See chart 2, p. 379.)

There is a relation between these two lines on the curve. [Indicating.] They have both been put on there absolutely independently. One is the price level from the Bureau of Labor statistics as expressed in gold, and the other is the money of the world as expressed in gold. They were both put on the chart independently, and yet you see the result. It is unmistakable. [Indicating.]

The United States of America, by the simplest kind of a law, can elevate that gold value of the monetary base to the point that gives us the 1926 price level, and we can hold it there; and I have calculated that it will only cost this Government \$50,000,000 to do it, and we would have a managed monetary base for the world.

The point that I would like to emphasize in that connection is this—that by managing the monetary base of the world in that simple way we force all the gold-standard currencies to adapt themselves to that situation. The reason for that is very simple, and I can briefly state it in this way.

If we bring gold down from the level that it is on now, which is 70 percent above where we want it, and we bring it down to this 1926 base level, what is sterling going to do? What can it do? Sterling cannot possibly go above that line [indicating on chart],

because they lose markets; and we walk in with our dollar at a lower level and get their markets. Sterling cannot go below it, because if it did the dollar is payable in sterling at a discount which they cannot afford.

If we want to stabilize the currencies in that way it would cost \$50,000,000, not over that. We can stabilize not only the dollar, but we can stabilize sterling and francs and guilders and all gold currencies. There is not any doubt about it, and I have not met anyone yet that can contradict it. We are just overlooking the big point in this picture of the control of the monetary base—

The CHAIRMAN. What is that \$50,000,000 for?

Mr. JANNEY. That would be the cost of the mechanics of the operation.

Senator GORE. What would you do?

Mr. JANNEY. You have got to avoid bimetallism. You have got to get out of your mind this free coinage of silver.

Senator WALCOTT. You do not call bimetallism free coinage of silver, do you?

Mr. JANNEY. I am glad you asked that question. That is just the distinction I want to make. Bimetallism usually means coining silver and putting it into the monetary system at a fixed ratio with gold that you should call it a bimetallic standard, to be correct in your diction. We have bimetallism in such nations, for instance, as Holland. Holland has silver money. I had in my hand in the last 2 weeks a Holland silver certificate for $2\frac{1}{2}$ gold guilders, payable in silver bullion. That $2\frac{1}{2}$ -guilder certificate payable in silver bullion is discounted in the banks of Europe at 100 percent par value.

The CHAIRMAN. Senator Gore wants to know what you would do with this \$50,000,000.

Mr. JANNEY. I would take this gold base, which is at this low point, due to the fact that silver is now 26 cents an ounce—

Senator TOWNSEND. It is 44.

Mr. JANNEY. Well, 44 by our new dollars which are 60 percent below par. I am speaking now of the former value. We can take that and buy silver until we get silver up to the point that puts the gold plus silver of the world to this line here [indicating on chart], which gives us the 1926 price level. The recommendation, which I have given to the House committee and which differs from the so-called "silver advocates", is that you maintain the gold standard. I would place this silver in the Treasury.

It would not be over 6 or 8 hundred million ounces that you would have to buy to put it up to that point, and then I would take 6 or 8 hundred million dollars out of the actual cost of the silver, so as to reimburse the Treasury. The form of silver certificate would be equivalent to the gold certificate. It would not involve any pyramiding, and it would be a certificate of deposit where \$100 of silver is held against a \$100 note; and when you presented the silver certificate, no matter what the price of silver might be, you would have \$100 worth of it in the market.

Thus you provide a use for that silver. It puts silver in competition with gold, and it is the most conservative kind of inflation we can have, because it would be absolutely under our control. You use that flywheel exactly as England is using it to depress prices.

You would just reverse the machinery and place the United States of America in control of the money systems of the world.

The CHAIRMAN. We are very much obliged to you, Mr. Janney.

Senator GORE. Mr. Janney, you stated that you favored a specific price level and also a stabilized monetary standard or system. I have thought that if you had stable money, you would have to have stable prices, and if you had a stable price level, you would have to have a variable price unit.

Mr. JANNEY. I would hold to a stable gold value in terms of commodities. The variable factor would be in the supply of the basic money, which would be added to or subtracted from as you need it, by taking silver out of the commodity market and putting it into your monetary base. Then you have monetized the silver in your monetary base as far as the United States is concerned.

The CHAIRMAN. Mr. Eisler would like to say a word.

Mr. EISLER. I want to say that it is absolutely not correct to say that England wants to go back to the price level of 1914. England cannot exist on the price level of 1914. It is the unanimous opinion of the political as well as the economic world that they want to raise the price level because they have too high wages which they cannot depress. It is absolutely against the interests of England to go back to the price level of 1914. It would affect the country with the same certainty as it would affect this country.

Mr. JANNEY. England is on the 1914 price level in terms of sterling now.

Mr. EISLER. Yes, but they do not want to remain there.

Mr. JANNEY. If England were to sell 100 million pounds of sterling and buy Government bonds, what would that do to sterling?

Mr. EISLER. If England were to buy Government securities with gold?

Mr. JANNEY. No; I did not say that.

Mr. EISLER. I did not understand your question.

Mr. JANNEY. If England were to print and issue 100 million pounds sterling notes and buy Government bonds with it, what would that do to sterling?

Mr. EISLER. That would inflate the English price level; it would raise it.

Mr. JANNEY. That is what you say they want to do.

Mr. EISLER. Yes.

Mr. JANNEY. Why don't they do it?

Mr. EISLER. The answer to that is very simple, because in England, just as here, there is the opposition of people who have fixed monetary incomes—

Mr. JANNEY. Then they do not want to raise it.

The CHAIRMAN. That would be fiat money, would it not?

Mr. EISLER. Yes.

Mr. JANNEY. You say they want to raise the price level?

Mr. EISLER. Yes.

Mr. JANNEY. What did you say about fixed incomes?

Mr. EISLER. I say that against this there is the resistance of those who stand to lose. Here in America you all want to raise the price level, but you have the resistance of civil servants and employees and other people who stand to lose by it. Therefore no adjustment

has hitherto been made. But the country wants to raise the price level.

Mr. JANNEY. But you cannot get the country to do it; is that it?
Mr. EISLER. Yes.

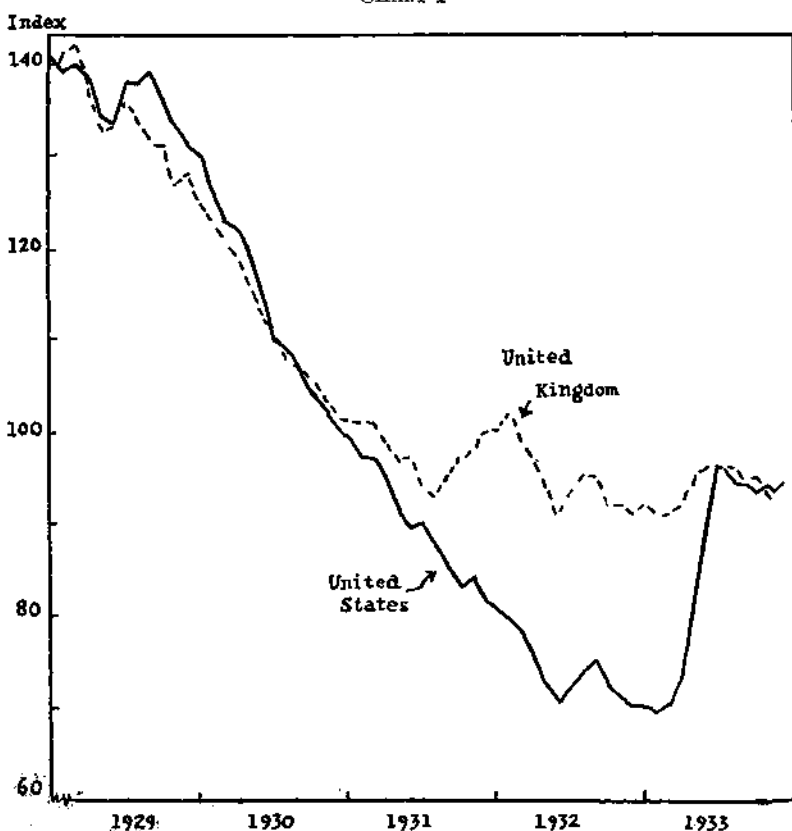
Mr. JANNEY. I agree with you.

(Witness excused.)

The CHAIRMAN. The hearings are concluded. The committee will meet tomorrow morning at 10:30 to consider the bill.

(Whereupon, at 6:30 p.m., the hearings were concluded, and the committee adjourned to meet at 10:30 a.m. Tuesday, Jan. 23, 1934, to consider the pending bill.)

CHART 1



NOTE.—Additional charts submitted by Mr. Janney which he wished to appear at the conclusion of his testimony are printed on pages 380 and 381.

CHART 2

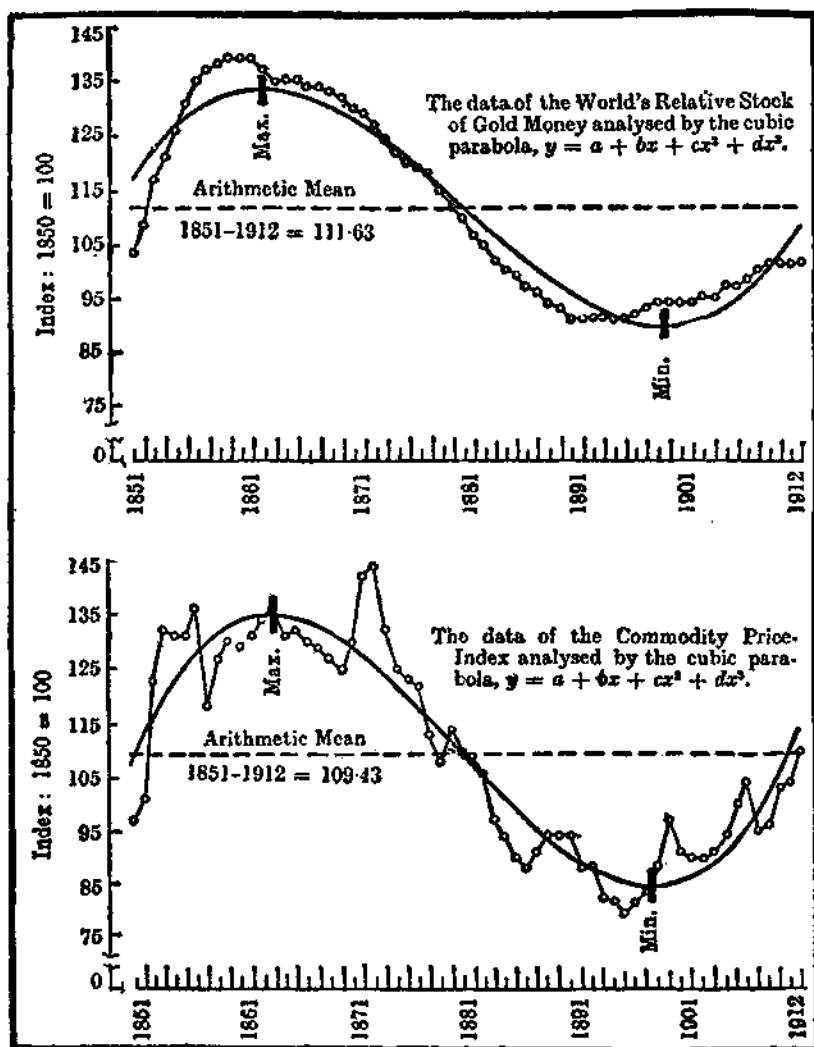


CHART 3

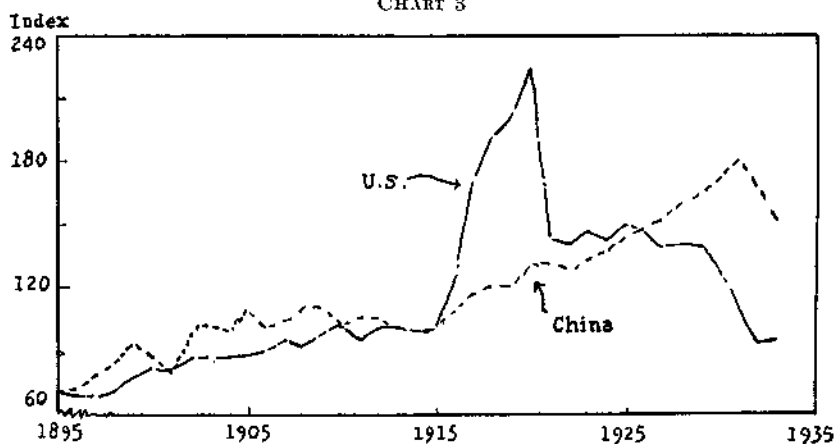


CHART 4

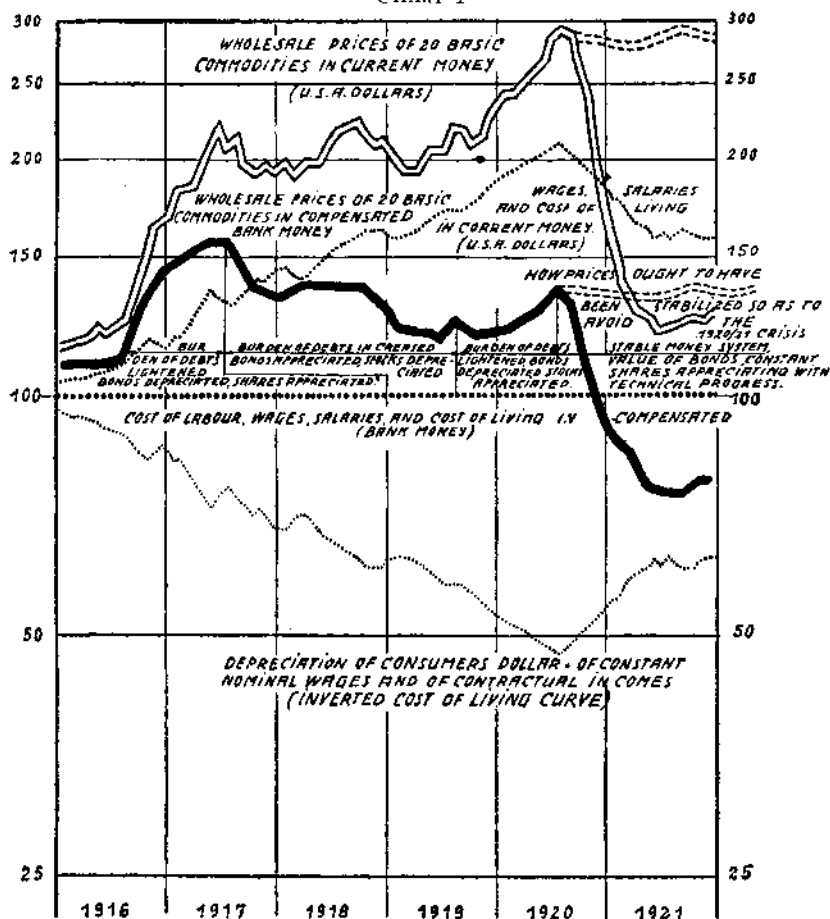
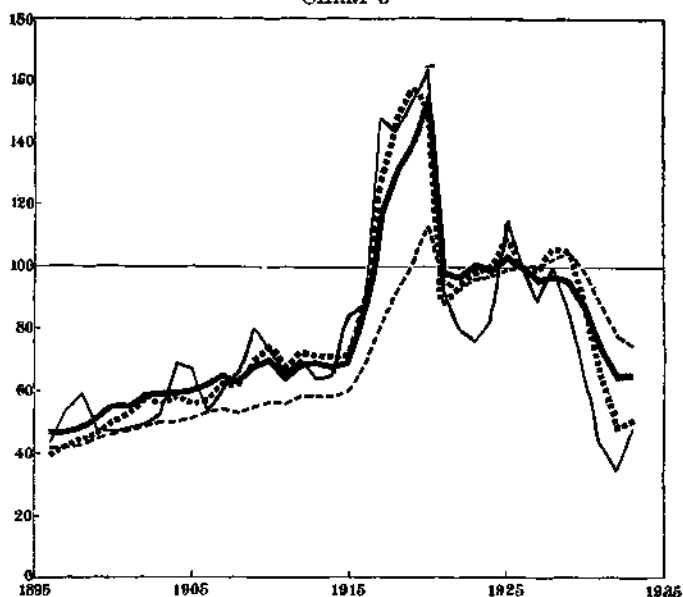


CHART 5

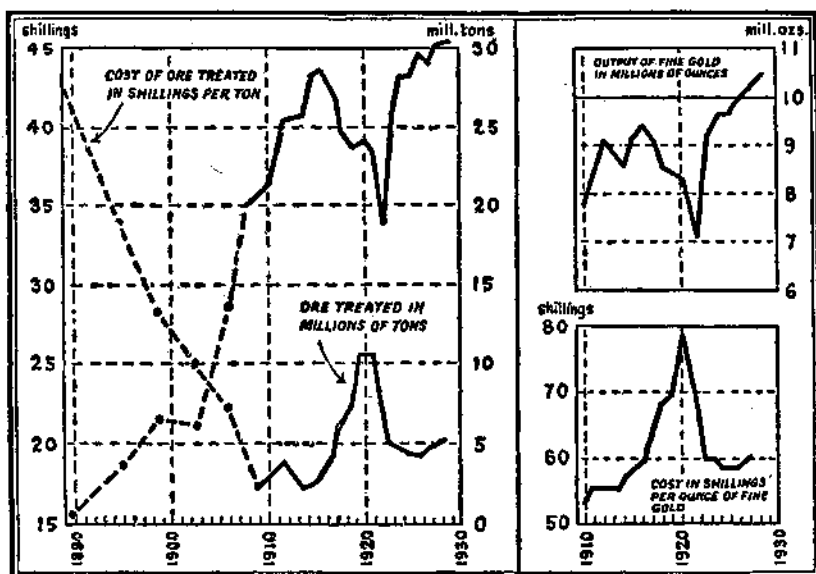


WHOLESALE AND GENERAL PRICE LEVELS AS COMPARED WITH WHOLESALE PRICES OF FARM PRODUCTS
1896-1933

INDEX NUMBERS 1926 = 100

Wholesale price level, B. L. S. Index —————
General price level, Snyder's Index - - - - -
Prices of farm products, B. L. S. Index
Prices of wheat in Chicago ————

CHART 6



46217-34-25

[PUBLIC—No. 87—73D CONGRESS]

[H.R. 6976]

AN ACT

To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Gold Reserve Act of 1934."

SEC. 2. (a) Upon the approval of this Act all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

(b) Section 16 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) The third sentence of the first paragraph is amended to read as follows: "They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank."

(2) So much of the third sentence of the second paragraph as precedes the proviso is amended to read as follows: "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates:"

(3) The first sentence of the third paragraph is amended to read as follows: "Every Federal Reserve bank shall maintain reserves in gold certificates or lawful money of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual circulation: *Provided, however,* That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(4) The fifth and sixth sentences of the third paragraph are amended to read as follows: "Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States."

(5) The fourth, fifth, and sixth paragraphs are amended to read as follows:

"The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than 5 per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the 40 per centum reserve hereinbefore required. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of the notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 18 of this Act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding

Federal Reserve notes when offered by the Reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent."

(6) The eighth paragraph is amended to read as follows:

"All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safe-keeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law."

(7) The sixteenth paragraph is amended to read as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury."

(8) The eighteenth paragraph is amended to read as follows:

"Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits."

SEC. 3. The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the condi-

tions under which gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked: (a) for industrial, professional, and artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this Act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United States) only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations. Such regulations may exempt from the provisions of this section, in whole or in part, gold situated in the Philippine Islands or other places beyond the limits of the continental United States.

SEC. 4. Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody, in violation of this Act or of any regulations issued hereunder, or licenses issued pursuant thereto, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

SEC. 5. No gold shall hereafter be coined, and no gold coin shall hereafter be paid out or delivered by the United States: *Provided, however,* That coinage may continue to be executed by the mints of the United States for foreign countries in accordance with the Act of January 29, 1874 (U.S.C., title 31, sec. 367). All gold coin of the United States shall be withdrawn from circulation, and, together with all other gold owned by the United States, shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treasury may direct.

SEC. 6. Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval of the President, no currency of the United States shall be redeemed in gold: *Provided, however,* That gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States: *And provided further,* That the reserve for United States notes and for Treasury notes of 1890, and the security for gold certificates (including the gold certificates held in the Treasury for credits payable therein) shall be maintained in gold bullion equal to the dollar amounts required by law, and the reserve for Federal Reserve notes shall be maintained in gold certificates, or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act, as heretofore and by this Act amended.

No redemptions in gold shall be made except in gold bullion bearing the stamp of a United States mint or assay office in an amount equivalent at the time of redemption to the currency surrendered for such purpose.

SEC. 7. In the event that the weight of the gold dollar shall at any time be reduced, the resulting increase in value of the gold held by the United States (including the gold held as security for gold certificates and as a reserve for any United States notes and for Treasury notes of 1890) shall be covered into the Treasury as a miscellaneous receipt; and, in the event that the weight of the gold dollar shall at any time be increased, the resulting decrease in value of the gold held as a reserve for any United States notes and for Treasury notes of 1890, and as security for gold certificates shall be compensated by transfers of gold bullion from the general fund, and there is hereby appropriated an amount sufficient to provide for such transfers and to cover the decrease in value of the gold in the general fund.

SEC. 8. Section 3700 of the Revised Statutes (U.S.C., title 31, sec. 734) is amended to read as follows:

"SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

SEC. 9. Section 3699 of the Revised Statutes (U.S.C., title 31, sec. 733) is amended to read as follows:

"SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however,* That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

SEC. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of \$2,000,000,000, which sum when available

shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) All the powers conferred by this section shall expire two years after the date of enactment of this Act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.

SEC. 11. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary may deem necessary or proper to carry out the purposes of this Act.

SEC. 12. Paragraph (b) (2), of section 43, title III, of the Act approved May 12, 1933 (Public, Numbered 10, Seventy-third Congress), is amended by adding two new sentences at the end thereof, reading as follows:

"Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency."

Paragraph (2) of subsection (b) of section 43, title III, of an Act entitled "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended by adding at the end of said paragraph (2) the following:

"The President, in addition to the authority to provide for the unlimited coinage of silver at the ratio so fixed, under such terms and conditions as he may prescribe, is further authorized to cause to be issued and delivered to the tenderer of silver for coinage, silver certificates in lieu of the standard silver dollars to which the tend-

erer would be entitled and in an amount in dollars equal to the number of coined standard silver dollars that the tenderer of such silver for coinage would receive in standard silver dollars.

"The President is further authorized to issue silver certificates in such denominations as he may prescribe against any silver bullion, silver, or standard silver dollars in the Treasury not then held for redemption of any outstanding silver certificates, and to coin standard silver dollars or subsidiary currency for the redemption of such silver certificates.

"The President is authorized, in his discretion, to prescribe different terms and conditions and to make different charges, or to collect different seigniorage, for the coinage of silver of foreign production than for the coinage of silver produced in the United States or its dependencies. The silver certificates herein referred to shall be issued, delivered, and circulated substantially in conformity with the law now governing existing silver certificates, except as may herein be expressly provided to the contrary, and shall have and possess all of the privileges and the legal tender characteristics of existing silver certificates now in the Treasury of the United States, or in circulation.

"The President is authorized, in addition to other powers, to reduce the weight of the standard silver dollar in the same percentage that he reduces the weight of the gold dollar.

"The President is further authorized to reduce and fix the weight of subsidiary coins so as to maintain the parity of such coins with the standard silver dollar and with the gold dollar."

SEC. 13. All actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made or issued by the President of the United States or the Secretary of the Treasury, under the Act of March 9, 1933, or under section 43 or section 45 of title III of the Act of May 12, 1933, are hereby approved, ratified, and confirmed.

SEC. 14. (a) The Second Liberty Bond Act, as amended, is further amended as follows:

(1) By adding at the end of section 1 (U.S.C., title 31, sec. 752; Supp. VII, title 31, sec. 752), a new paragraph as follows:

"Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan."

(2) By inserting in section 8 (U.S.C., title 31, sec. 771), after the words "certificates of indebtedness", a comma and the words "Treasury bills".

(3) By striking out the figures "\$7,500,000,000" where they appear in section 18 (U.S.C., title 31, sec. 753) and inserting in lieu thereof the figures "\$10,000,000,000."

(4) By adding thereto two new sections, as follows:

"SEC. 19. Notwithstanding any other provisions of law, any obligations authorized by this Act may be issued for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills, of the

United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe.

"SEC. 20. The Secretary of the Treasury may issue any obligations authorized by this Act and maturing not more than one year from the date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final."

(b) Section 6 of the Victory Liberty Loan Act (U.S.C., title 31, sec. 767; Supp. VII, title 31, secs. 767-767a) is amended by striking out the words "for refunding purposes", together with the preceding comma, at the end of the first sentence of subsection (a).

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates.

SEC. 15. As used in this Act the term "United States" means the Government of the United States; the term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "currency of the United States" means currency which is legal tender in the United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations; and the term "person" means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents. Wherever reference is made in this Act to equivalents as between dollars or currency of the United States and gold, one dollar or one dollar face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by this Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

SEC. 16. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 17. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed.

Approved, January 30, 1934.