Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 6, 1939

To Chairman Eccles

Subject: Cost to the Federal Reserve System of taking over silver certificates

From Mr. Goldenweiser EAG

In connection with the proposal that you were considering for handling the silver situation, I want to remind you of the cost involved in taking over the printing of all the currency that is now issued in the form of silver certificates. The cost of supplying currency in one dollar denominations alone, which were all silver certificates, was $5,685,000 in 1938, and in addition there was a considerable amount of 5's issued, so that the total cost would be somewhere in the heighborhood of $6,000,000.

It does not seem to me necessary for the System to assume this expense without compensating advantages. I should think that it would be better simply to recommend that purchases of silver be discontinued and that the Treasury be permitted to keep outstanding only a sufficient amount of silver certificates to cover the actual amounts paid for the silver. This would make the present seigniorage bullion idle in the Treasury, unless it chose to sell it, and there would be no further additions to the currency from that source. I think that would be a better proposal than to assume a $6,000,000 annual expense.

Memoranda of early February '39, revised under date of Feb. 7, 1939, as per memos of Ransom & Goldenweiser, resp.

As I had never seen this before, I take it that it belongs in here. — mcb

Form F. R. 131

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 6, 1939

To Chairman Eccles

Subject:

From Ronald Ransom

(Confidential)

I have read the memorandum entitled "The Silver Program" prepared by Dr. Goldenweiser and submitted to the Board members Saturday afternoon. I would like to see it confined to a discussion of the third point of view from which it states the silver problem can be approached,-namely, "its effect on the credit situation". I feel that the fourth subject should be omitted with the statement that this point of view is one not within the field of responsibility of the Federal Reserve System. I do not think there should be any discussion of its monetary significance or its effect on our currency system except to list them as among the four "points of view". As to this first and second item, we could say that, while of interest to us, it is not being discussed in this memorandum which is limited to a discussion of the credit aspects of the problem, which is the one aspect within our field of responsibility.

RR

THE SILVER PROGRAM

Consideration of the silver problem can be approached from several points of view: (1) its monetary significance; (2) its effect on our currency system; (3) its effect on the credit situation, and (4) its effect on the silver industry here and abroad.

1. Monetary aspects

This country has at present a stock of monetary gold amounting to $14,700,000,000, compared with $4,000,000,000 in January 1934. Throughout the 1920's the gold reserves of this country never rose higher than $4,700,000,000 -- a figure which was considered exceedingly large at the time. In view of this large stock of monetary gold - there is no occasion at this time to add to our metallic reserves through further acquisitions of silver.

Silver, furthermore, lacks many of the characteristics that are important for a metallic reserve. It cannot be used internationally as gold is used. Authorities of countries in the tripartite accord do not want it. There is no country in the world today that will take silver from us at its monetary value or at any other stable rate in settlement of international balances. And yet the basic use for metallic reserves today is in settlement of international balances.

2. Currency aspects

The amount of money in circulation in this country is determined by the current needs of the public for cash. It depends in no way on the kind of currency that is issued. Issues of silver certificates do not increase the amount of currency in circulation, but simply take the place of Federal reserve notes. Continuous issues of silver certificates against silver bullion now in the possession of the Treasury and against new purchases of silver would result in a gradual displacement of Federal Reserve notes from our circulation. And yet it has been the intent of Congress in establishing the Federal Reserve System that the Federal Reserve banks shall be the source of the country's elastic currency. The preamble of the Federal Reserve Act states as the first of its purposes "to furnish an elastic currency". Issues of silver certificates interfere with this purpose of the Federal Reserve System.

3. Credit aspect

When silver certificates are issued an equivalent amount of other currency becomes superfluous for meeting the cash requirements of the public and is deposited at the banks, and by them at the Federal Reserve banks. When member banks deposit this currency with the Federal Reserve banks it is added to their balances with these banks and increases their reserves. Member banks' reserves are now over $9,000,000,000 as against $2,500,000,000 at the period of greatest extension of bank credit in the 1920's. Although reserve requirements have been raised, reserves in excess of these requirements amount to $3,600,000,000. As the Board has pointed out in its Annual Report for 1938, there is no danger of inflation at the moment from the great expansion of bank credit that these excess reserves render possible; but at any time this danger may become real. To quote from the Report:

"The ability of the banks greatly to expand the volume of their credit without resort to the Federal Reserve banks would make it possible for a speculative situation to get under way that would be beyond the power of the System to check or control. The Reserve System would, therefore, be unable to discharge the responsibility placed upon it by Congress or to perform the service that the country rightly expects from it."

The issue of new silver certificates adds to this problem of excess reserves.

4. Industrial aspects

Silver purchases as an aid to the silver industry present problems that are outside the field of responsibility of the Federal Reserve System. It would seem, however, that if a subsidy for silver production is desired by Congress, this would still not necessitate purchases of silver from foreign sources.

As a matter of fact, the law declares it to be the policy of the United States to increase the monetary stock of silver until it amounts to one-third the monetary gold stock, and in accordance with this provision the greater part of the Treasury's silver purchases have been made abroad. The domestic part of the problem is relatively small, involving annual purchases of about $40,000,000 on the basis of the price of 64.64 cents an ounce.

Purchases of silver during the past five years have amounted to 1,900,000,000 ounces at a cost of $1,100,000,000. Discontinuance of these purchases might not have as serious an effect on silver prices abroad as would at first sight appear. It is true that the United States has become the dominant factor in the world market since its silver program was adopted. But in part this is because it has displaced the usual sources of demand, driving China from the silver standard and making it profitable for that country to sell silver; turning India, too, for a while into a supplier of silver rather than a consumer; and discouraging the use of silver in industry and the arts. What has been done cannot altogether be reversed, but there are grounds for believing that as the price of silver fell upon cessation of the American purchases these other sources of demand would again become active. The resultant makret would be broader than the present market which depends almost entirely on the price paid by the United States Treasury for silver.

issue in silver certificates under the law I mean as it is, is $1,000,000,000 plus another billion, would be $2,000,000,000. That is the most that you could bill, because you haven't any legal authority.

Mr. JOHNSTON. You have got that 75-25 yardstick.

The CHAIRMAN. What is that?

Mr. JOHNSTON. Where you have to issue 25 percent in silver certificates.

The CHAIRMAN. Exactly, but we have got now nearly three-fourths of the gold of the world, so there is a minimum in there probably of gold, and your chance is constant even if you put it up so that you get all the gold in the world. That is, you have a limit on your currency under the existing law, and your stabilization fund, which I put at $2,000,000,000 would probably stay in that amount. Personally I am for it.

Mr. JOHNSTON. I hope so.

The CHAIRMAN. In the long run you couldn't possibly issue a very tremendous amount of currency based on gold and silver, and as I say as far as the Federal Reserve notes are concerned that money, the issuance of it, is practically in the hands of the banks.

Mr. JOHNSTON. They can of course very greatly expand that because they only have to have the 40 percent gold cover.

The CHAIRMAN. I say to trust the banks with inflation, which we certainly do—they had it practically in their control.

Mr. JOHNSTON. I do not see how we are going to have any, even if we get into a big war, which I hope to goodness we don't—I don't see how we are going to have any great need for increased circulation. If we get into a great war we will have a great need for credit, and of course we have got the credit basis for that. They could build the credit up to thirty to forty billion dollars with our gold base.

The CHAIRMAN. Undoubtedly, we go back to whether or not the currency is actually needed or whether checks and drafts are needed, and you have got again your ratio of coverage. When the deposits have to be paid with money, or there is a failure, you are depending upon taking care of that to a certain extent, Mr. Johnston, aren't you, by the deposit insurance? But the deposit insurance has got to have money if it is to function. Now what money have you got? You have got the Federal Reserve notes, have you not?

Mr. JOHNSTON. I think now we have got the cure, Senator, in this prohibition against the withdrawal of the gold. What brought the crisis on in 1933 was the withdrawal of gold, which left no base.

Mr. TRENT. That is right.

The CHAIRMAN. Exactly.

Mr. JOHNSTON. I said to one of the great bankers in New York City—I was sitting directly opposite him, near the Governor of the Federal Reserve Bank. I said, "Bill, the jig is up. Our banker has gone back on us." He didn't have any money.

The CHAIRMAN. But on the other hand, Mr. Johnston, isn't it true that when the fellow is afraid of a bank and he wants to withdraw his deposit he will take gold if he can?

Mr. JOHNSTON. Yes.

The CHAIRMAN. And if he cannot, he will take any legal-tender money, so in the long run deposits have got to be paid by legal-tender money?

Mr. JOHNSTON. Well, you know when they were withdrawing, Senator, if I make take just this one minute, there was an enormous line of people out on the sidewalk running a block or two, in New York at the Federal Reserve banks, just standing in line with baskets.

Senator SHIPSTEAD. To get gold?

Mr. JOHNSTON. And they were taking the currency that the banks paid, now, and swapping it for the gold and pulling the foundation out from underneath the whole thing. Now you have got that stopped, that cannot happen.

Senator SHIPSTEAD. How much of that gold went away out of the country?

Mr. JOHNSTON. About 600 millions went abroad, which we should have stopped. Why, my Negro butler said to me—he had been with me, an Alabama Negro, and he said one morning there when all the trouble was going on and I was getting home at 2 or 3 o'clock every morning from the clearing house in New York, he said to me, "Why do they let France take this money out of this country?" I said, "Well, France has the money at the Federal Reserve." "Well", he said, "don't France owe us about $4,000,000,000?" I said, "Yes." He said, "Why don't we garnishee it?"

The CHAIRMAN. Now, let us get to another little question and then I am through. With regard to China, I understand that you say in your report here that the "silver coinage has been demonetized among the nations of the world on an extensive scale and China, the last country using silver as a money standard, has been forced to adopt a managed currency. Instead of increasing our commerce with China, the American silver policy demoralized her currency structure."

Mr. JOHNSTON. That is right.

Mr. TRENT. Here is a splendid statement from the New York Times yesterday by the shrewdest Chinaman of that whole city. It is very illuminating.

The CHAIRMAN. Put that in the record right at this point.

(The newspaper clipping referred to, entitled "Mr. Eccles on Silver," is as follows:)

MR. ECCLES ON SILVER—REPEAL OF PURCHASE PLAN HELD INIMICAL TO CHINA

To the editor of the New York Times: In your editorial commenting on Mr. Eccles's position on the foreign silver purchase program you apparently overlooked the repercussions on Sino-American trade which will certainly result from the suggested repeal of the existing law.

True, the law has failed in every one of its avowed purposes so far; yet, equally true, it has also brought about great beneficial results unforeseen by its critics and supporters.

As you have repeatedly pointed out in your columns, the law failed, among other things, to increase the use of silver as "currency," but instead forced China—the last stronghold of the silver-using world—to abandon the silver standard in favor of a "managed" currency. It brought about, unintentionally of course, the financial panic and economic crisis, the worst of its kind that ever happened in China. Moreover, it reduced the American exports to China from $68,667,000 in 1934 to $38,153,000 in 1935. The American share of China's total trade was thus lowered from 23.24 to 20.74 percent.

REPEAL NO REMEDY

These were some of the outstanding damages and evils resulting from the operation of the existing law. They could have been avoided by the repeal of the law, say, 6 months before China actually went off the silver standard. To repeal the law at this moment cannot in any way remedy what injuries had been done, but, on the contrary, would certainly result in new evils from which both China and America will suffer.

However, it must be pointed out excepting the abandonment of the silver standard (which, as I see it, is in itself no evil at all) the afore-mentioned evils have been effectively prevented from becoming aggravated by the Chinese currency reform in November 1935.

With the American foreign silver-purchase program in force, the Chinese currency reform proved to be a great success. It resulted in exchange stability, financial and economic progress, and also in political solidarity to a degree which modern China had never before attained.

TRADE IMPROVED

In particular, the Sino-American trade was greatly improved. The United States had finally superseded all its principal rivals in trade with China as its share of the total increased from 20.74 percent in 1935 to 23.45 percent in 1937. And, in the course of 2 years, the American imports from China increased by 62 percent while its exports to China increased by no less than 30 percent.

Against the Japanese invasion the Chinese currency reform has, furthermore, proved to be one of the basic factors in China's strength of resistance. China was not blocked financially at the outset of hostilities. She has been able to dispose of liquid foreign balances instead of being dependent on immobilized and bulky silver reserves. Moreover, she was able to maintain the exchange at the pre-war rate of United States 30 cents per yuan during the first 8 months of the hostilities.

EXCHANGE STABILIZED

Furthermore, she has kept the rate of exchange remarkably stable at the new level of United States 16 cents, approximately, since last July after it had fluctuated violently for about 4 months. The stability of the Chinese national currency has undoubtedly helped to sustain the continued flow of American exports to China. The decrease of exports of the United States to China for 1938 was rather small, being only 20 percent, as compared with the previous year.

All of these unexpected but very profitable results, we must remember, could not have been attained without the support of the foreign silver-purchase program of the United States.

Unless some new measures for the protection of the dollar-yuan exchange's stability are agreed upon between China and the United States, the repeal of the silver purchase law at this hour will inevitably bring about new catastrophes graver than those of 1934–35. It will mean the collapse of the stability of the Chinese currency. It will help to drive all China into the clutches of the "yen bloc."

In the end it will mean the defeat and extinguishment of a free and friendly people at the hands of the aggressor. Unquestionably, this is not what the people of the United States, whose sympathy has been wholly with the Chinese, want.

LIN LIN.

Mr. JOHNSTON. Two Chinese bankers made the statement that our silver policy destroyed their currency.

The CHAIRMAN. Let us see what did happen to the silver policy of China. Instead of doing as Great Britain did when they went off the gold standard, control their gold, what we did when we went off, control our gold, the first thing they did in that matter was to be afraid of the silver going out of there. The price of silver was going up. The first thing they did, the Government as a government was threatening to put an export tax on silver. The next thing they did was to threaten to embargo against the taking out of the silver at all. I have a letter here from an official of an oil company that is very interesting. He is dead now. He wrote a letter and said they drew out of China an enormous sum of money, over one hundred millions in the bank, because they wanted to use that money in the Straits Settlements and everywhere else, and they did not want to use it all in their central banks. They withdrew it out of the bank reserves, just made a run on it. The same thing was done by Standard Oil Co. through concerns that carried large silver deposits over there. It was their own statement of what they might do that caused the run; just as though we had announced that on the 1st day of September you were going to pay out no more money.

Mr. Johnston. An invitation is what it really was.

The Chairman. An invitation, on that proposition. There was a great speculative era in China. You were there in 1930, and I was there in 1931. There was great speculation in real estate, which they had never done before. Prices on the bond got as high as on Wall Street. It is just crazy. It all went up, and largely on account of cheap money; that is, exchange values; and the thought that silver was going to be nationalized; and when you speak of ruining China, when China nationalized silver—and that is since this was written—nationalized silver, took the silver from all the banks into the central bank of China, they did allow some of the big banks there a certain portion of it. They called it "nationalized silver," and they went off the silver standard, established the credit in the United States, a dollar credit in the United States, and until China started south the conditions were flourishing in a monetary sense in China, and not only that, while they had gone off the silver standard they opened up mints again and replaced paper currency all over China with silver. Of course, the invasion of China from the north, and so forth, ended that, but they had jurisdiction then in a monetary way.

Mr. Johnston. I agree with that statement. They would have come back if it had not been for the war, I think.

The Chairman. It was their own fault. That is, they did not pursue the system. So our policy has not ruined China; and not only that, but the purchase of silver compared to their silver has allowed them to buy automobiles and trucks and things in this country, and it has been bought almost exclusively with silver because their exports were ruined by this war. They bought it with silver. That is all they had to buy with. As a matter of fact if you eliminate exports it does not make any difference whether China is on the gold standard or the silver standard or the dollar standard. The ultimate purchaser in China purchases with silver.

Now you say that India is not on the silver standard—certainly not—it is on the pound sterling, but everything that the Indian buys he must buy on the pound sterling with Great Britain, because that is his hoarded wealth in India as you know well enough, in the main, his purchasing power is not measured by the pound sterling, it is measured by the silver that he has hoarded. There is something I want to hand to you to read. It is a little brochure by the spinners of either Lancaster or Liverpool, I forget which, in which they lay their whole trouble to their exports of cotton goods, to the depreciation in the price of silver, because their chief market was India in cotton goods. The Indian has to buy the pound sterling on a fixed basis of exchange. That is a discussion of it entirely foreign to our country. Not all of the cotton goods but a large portion of it goes to the Tropics, you know that, and to India and China. Those people buy the exchange, whether it is the pound sterling exchange or the dollar exchange, and they buy as many clothes as it will buy.

Mr. Johnston. Which isn't many.

SILVER

SATURDAY, APRIL 29, 1939

UNITED STATES SENATE,
SENATE SPECIAL SILVER COMMITTEE,
Washington, D. C.

The committee met pursuant to adjournment at 10 o'clock in the room of the Committee on Foreign Relations, in the Capitol, Senator Key Pittman, chairman, presiding.

Present: Senators Pittman (chairman), King, and Johnson of Colorado.

Present also, at the invitation of the chairman of the committee: Walter E. Trent, technical director of the Rocky Mountain Metal Foundation.

The CHAIRMAN. The committee will come to order. Mr. Walter E. Trent appears before the committee and says he has a prepared statement he desires to present. Without objection the statement will be received and published in full in the record.

STATEMENT OF WALTER E. TRENT, TECHNICAL DIRECTOR, ROCKY MOUNTAIN METAL FOUNDATION

Mr. TRENT. At the Senate Special Silver Committee hearing on March 23, 1939, Governor Eccles stated:

> No; because the currency is not based upon loans. I tried to make that clear before.
>
> Mr. TRENT. You have not made it clear to me.
>
> Mr. ECCLES. Well, maybe you had better read the record after it is out because I do not know how I can make it any clearer.

Reference is made to the following excerpt from the book written by W. Randolph Burgess entitled "The Reserve Banks and the Money Market." The book was sponsored by the Federal Reserve banks and contains introductions written by George L. Harrison, president of the Federal Reserve Bank of New York. Gov. Chester Davis of the Federal Reserve System referred this book to me as authoritative as to the operation of the Federal Reserve System and member banks. The excerpt follows:

MECHANISM FOR SUPPLYING CURRENCY

> In currency transactions the Federal Reserve banks are largely passive. They do not force money into circulation nor force it back from circulation. A low discount rate may make it easier for member banks to borrow and so obtain currency; a high discount rate may make it more difficult. But the initiative in withdrawing or returning currency is always taken by the member bank.
>
> It is the facility with which member banks can borrow at the Reserve banks which is primarily responsible for currency elasticity and makes little difference whether the Reserve banks pass out to the member bank Federal Reserve currency silver certificates, or United States notes. In a certain sense the Reserve System has made all types of currency elastic, because all can be paid out in amounts required and in formal times they all tend to flow back to the Federal Reserve banks when they are not actively used in the business of the country.

At the subcommittee meeting of the Committee on Banking and Currency to consider the repeal of the Silver Purchase Act of 1934 Governor Eccles reversed his testimony, quoted above, which was given at the Senate Silver Committee at which time he stated, "No; because the currency is not based upon loans. I tried to make that clear before."

Senator ADAMS (at Senate Subcommittee on Banking and Currency). To what extent can a bank go to the Federal Reserve Board and get currency?

Mr. ECCLES. They can borrow on Government bonds all eligible paper or any other good and sound asset that the Federal Reserve System is willing to accept.

Further Mr. Eccles stated in response to questions as follows:

Mr. ECCLES. Now if you will permit me I want to bring out some points about the purchase of silver.

Senator GLASS (chairman of the subcommittee). You may proceed.

Mr. ECCLES. First, I will take up the effect of silver purchases upon the bank reserves: The issuance of silver certificates and silver coin by the Treasury Department increases the volume of reserves at member banks. From the end of 1933 through 1938 additions to member bank reserves resulting from silver purchases amounting to $1,220 millions.

Senator ADAMS. Would I interrupt you if I said the same thing is true of gold purchases? That is true except that gold can go out as well as come in, whereas silver is on a one-way street.

(NOTE.—Since 1934 the United States has exported $66.441 millions of silver and $133.162 millions of gold; more than twice the amount of silver than of gold in ratio to the holdings of the two metals.—Trent.)

Mr. ECCLES. The total increase in reserves during the period was $6 billions. To what extent gold imports would have been larger in the absence of silver purchases it is impossible to say. You will observe that foreign countries can settle their balances with silver as well as with gold. So the question is, if we had taken silver would we have received more gold; and, if so, to what extent? I contend it is impossible to say to what extent we would have received more gold in lieu of what we did take. Certainly we would have received more gold or we would have done less business.

During the past year silver purchases increased reserves by approximately $200 millions, of which $40 millions represented silver from domestic mines.

Now I will take up the effect of silver purchases on types of money in circulation: Since the total amount of money in circulation in this country is determined by the requirements and the general public, the issuance of silver certificates does not change the amount of currency outstanding but results in the substitution of silver certificates for the same amount of other currency in circulation. Since the end of 1933, silver certificates and coins in circulation increased by about $1 billion while other types of non-Reserve currency declined by $900 millions, chiefly reflecting the requirement of national bank notes.

The following table shows the net changes in Federal Reserve notes, national bank notes, and silver certificates from June 30, 1934, to March 31, 1939:

Federal Reserve notes, bank notes, and silver certificates outside of the Treasury after Silver Purchase Act

	Federal Reserve notes	National bank notes, Federal Reserve bank notes	Silver certificates
June 30, 1934	$3,337,278,655	$933,032,243 158,334,903	$493,814,275
		1,091,367,146	
Mar. 31, 1939	4,636,518,683	194,686,521 26,749,373	1,651,216,101
		221,435,894	
Change	1,299,240,028	−869,931,252	1,157,401,826

Mr. Eccles states that silver purchases under the act have increased member bank reserves by $1,220 millions. The silver certificates increase of $1,157 millions was offset by the retirement of $870 millions of national-bank notes and Federal Reserve bank notes. Federal Reserve notes increased by $1,299 millions during the same period. Therefore the increase of reserves was due to the enlarged issue of Federal Reserve notes. If the issuance of $1,299 millions of currency was necessary over and above the silver certificate issues, then additional silver certificates should have been issued from the silver in the general fund of over 1 billion ounces which had been paid for to the extent of $560 millions. Such certificates should have been issued and would have reduced by the same amount the larger issue of Federal Reserve notes which had to be placed in circulation based on loans whereas the silver had been fully paid for.

It is well for the public to know that national currency operates with the same elasticity as Federal Reserve notes in respect to general circulation and in their flow back to the reserve banks when they are not actively used in business but a cardinal advantage resides in the national notes over those of the Federal Reserve because they cannot be canceled when they are returned to the banks and their continued existence does not depend either directly or indirectly upon existing loans as is the case with the Reserve notes. Governor Eccles could have made it clear to all that Federal Reserve notes are issued as a result of loans. Whether such loans be directly negotiated in order to purchase notes from the Federal Reserve, or whether the notes have been purchased by check payments drawn on reserves, they are in either case created by loans in one form or another, because deposits, over and above total national currency, are built up from loans. Even gold certificates held by the Federal Reserve banks are traceable to loans because the deposit credits given to the Treasury against gold receipts are utilized for the purchase of Government bonds.

It is a big jump from a total national currency of $2,500 millions to total deposits of $50 billions.

Governor Eccles' last statement to the committee was as follows:

> No one has in any way pointed out to me how the Federal Reserve System would be able in any way to control the expansion in the supply of bank deposits and currency as we continue to build up excess reserves of the banking system through the unlimited and indefinite purchases of silver. If it is a question of getting $4 billions of silver certificates out, that, of course, would mean an increase in the present excess reserves from what they are now but the difference between the silver certificates that are out now and what would be out at $4 billions which would be another $2,500 millions or more of excess reserves.

Governor Eccles had already testified that there are no advantages in having Federal Reserve notes as part of the fixed irreducible circulating currency. If additional silver certificates were issued together with other forms of national currency such as circulating gold certificates there would be retired from the fixed currency of $5 billions the total amount of $2,533 millions of Federal Reserve notes. This replacement of Federal Reserve notes in the fixed circulating currency with national notes would neither increase nor decrease excess bank reserves. If on March 31, 1939, there had been $5 billions of fixed national currency, noncancelable and noninterest burdened, there would have been $1,817 millions Federal Reserve notes to occupy the elastic division of circulating currency. Under such circumstance the Federal Reserve may consider the increasing of

237451—40——16

Federal Reserve currency a dire necessity because total circulating currency must reach $10 billions before the national income can be increased to $100 billions.

I wish to make the following statement relating to the statement for the press by the Board of Governors of the Federal Reserve System, March 11, 1939, entitled "Statement of the Board of Governors on Proposals to Maintain Prices at Fixed Levels," and the statement of Governor Eccles to the Silver Committee April 23, which appears in part 3 of these hearings.

On the second page of the statement under the heading, "Prices do not Depend on Money Alone" it is stated that "There was $3,600 millions of currency in the hands of the public, outside the banks, in the middle of 1926 and about the same amount in the middle of 1929, while at the end of 1938 the amount of currency had increased to $5,700 millions." As the Federal Reserve officials are utilizing these figures in comparison with average yearly wholesale prices, the above figures are not pertinent. The 1926 yearly average money in circulation outside of Federal Reserve banks was $4,644 millions; for 1929 was $4,474 millions and for 1938 was $6,521 millions. The Federal Reserve is short more than $1 billion in their first figure and more than $800 millions in both their second and third figures. In view of these errors the conclusions given in the statement should be revised, but it is quite impossible to establish a consistent relationship between money in circulation and the price level, unless the currency is expressed in ratio with the net gold reserve. Further, it is essential to consider, at the same time, the ratios of national income, total bank deposits, bank loans, and bank investments—to net gold reserve.

On page 235 will be found excerpts from a chart entitled "Ratios of National Income, Bank Deposits, Loans and Investments—to Gold Reserve." The actual figures and the ratios to gold reserve are given for the 1915–38 period. On the following page I wish to insert a table entitled "Foreign Commerce—Gold, Silver and Merchandise" in which the gold exchanged for dollars or "hot gold" is determined for each year for the 1934–38 period, which figures are used cumulatively to determine net gold reserve in the next following chart entitled "Method of Determining the Adjusted Dollar Value." Accompanying the above is a second table entitled "Adjusting the Purchasing Power of the Dollar After Assuming That Excess of Exports Have Been Paid for Each Year in Gold for the 1915–33 Period."

The chart entitled "Adjusted Purchasing Power of the Dollar and Reconstructed National Income" is on page 301. From the data contained therein it will be ascertained that the purchasing power of the dollar accurately can be computed and that the amount of circulating money is a most vital element in such determination. It will be observed in the last chart mentioned that the national income for the period 1934–38 has been contracted due to currency deficiency in the cumulative sum for the period amounting to $59,400 millions. As an example, if the circulating currency had been equal to net gold reserve during 1938 the national income instead of having been reported at $64,900 millions would have shown an increase to $80,310 millions. The following table is an excerpt from the ratio chart on page 285 consisting of the data which should be considered for the 3 years mentioned by the Federal Reserve System in determining the conditions under which money in circulation and other factors influence the price level.

Foreign commerce—gold, silver, and merchandise

[In devalued dollars]

Year	Merchandise, excess of export	Silver, excess of import	Gold, excess of import	Gold exchanged for dollars "hot gold"	Gold stock [1]
1934	477,745,000	86,174,000	1,133,912,000	742,341,000	8,237,967,000
1935	235,389,000	335,730,000	1,739,019,000	1,839,360,000	10,125,175,000
1936	33,386,000	170,851,000	1,116,584,000	1,254,049,000	11,257,626,000
1937	265,499,000	79,835,000	1,585,503,000	1,399,839,000	12,760,000,000
1938	1,133,567,000	223,449,000	1,973,569,000	1,063,451,000	14,511,224,996
	2,145,586,000	896,039,000	7,548,587,000	6,299,040,000	−6,299,040,000
Net gold reserve (at $35 per ounce)					8,212,184,996
Net gold reserve (at $20.67 per ounce)					4,923,033,240
Value of hot gold Dec. 31, 1938				6,299,040,000	
Value of hot gold at $20.67 per ounce				3,661,153,000	
		Ounces Rate	*Silver cost*	*Coinage value*	
Foreign silver (Silver Purchase Act)		1,535,700 at 53.4	820,700,000		
Domestically mined silver		253,100 at 73.2	185,500,000		
Nationalized silver		113,000 at 50.0	56,500,000		
Total cost		1,901,800 at 55.9	1,062,700,000	1.293 per oz. 2.18 per oz.	2,459,027,400 4,145,924,000

[1] Includes $2,806,000,000 which was the increment resulting from reduction in the weight of the gold dollar, Jan. 31, 1934.

Method of determining the adjusted dollar value, as determined by the ratio of circulating money to net gold reserve in comparison to the values compiled by the Bureau of Labor Statistics

[Billions]

Year	Gold Reserve (less gold in circulation)	1915-34, gold in circulation—Hot gold cumulative, 1934-38	Monetary gold stock (net)	Money in circulation	Purchasing power, net gold divided by circulation	Purchasing power, Bureau of Labor Statistics, all commodities	Reconstructed national income (10 × gold reserve) purchasing power $1	National income as reported, Department of Commerce	Inflated part of income
	1	2	3	4	5	6	7	8	9
1915	$1.131	$0.587	$1.718	$3.077	$0.577	$1.44	$17.18	$36.0	$18.82
1916	1.571	.624	2.195	3.413	.614	1.17	21.95	45.4	23.45
1917	2.157	.666	2.823	3.840	.734	.85	28.23	53.9	25.67
1918	2.333	.537	2.870	4.370	.656	.76	28.70	60.0	31.30
1919	2.367	.475	2.842	4.728	.600	.72	28.42	68.3	39.88
1920	2.106	.475	2.581	5.190	.497	.65	25.81	74.6	48.79
1921	2.555	.447	3.002	4.664	.644	1.02	30.02	54.6	24.58
1922	3.098	.416	3.514	4.246	.826	1.03	35.14	60.6	25.46
1923	3.369	.404	3.773	4.533	.821	.99	37.73	71.5	33.77
1924	3.858	.393	4.251	4.591	.926	1.02	42.51	71.5	28.99
1925	3.691	.402	4.093	4.580	.893	.97	40.93	79.2	38.27
1926	3.773	.392	4.165	4.644	.897	1.00	41.65	80.6	38.95
1927	3.892	.385	4.277	4.605	.927	1.05	42.77	79.3	36.53
1928	3.542	.377	3.919	4.495	.870	1.03	39.19	82.4	43.21
1929	3.627	.368	3.995	4.474	.893	1.05	39.95	80.7	40.75
1930	3.827	.357	4.124	4.258	.982	1.16	41.84	67.9	26.06
1931	4.053	.363	4.416	4.669	.945	1.37	44.16	53.5	9.34
1932	3.500	.452	3.952	5.328	.745	1.54	39.52	39.5	.08
1933	3.739	.321	4.060	5.575	.727	1.52	40.60	41.3	.70

Method of determining the adjusted dollar value, as determined by the ratio of circulating money to net gold reserve in comparison to the values compiled by the Bureau of Labor Statistics—Continued

[Billions]

Year	Gold Reserve (less gold in circulation)	1915–34, gold in circulation—Hot gold cumulative, 1934–38	Monetary gold stock (net)	Money in circulation	Purchasing power, net gold divided by circulation	Purchasing power, Bureau of Labor Statistics, all commodities	Reconstructed national income (10 X gold reserve) purchasing power $1	National income as reported, Department of Commerce	Inflated part of income
	1	2	3	4	5	6	7	8	9
1934	$7.512	$0.742	$6.77	$5.402	$1.34	$1.34	$67.70	$49.6	−$18.10
1935	9.135	2.581	6.55	5.559	1.27	1.25	65.54	54.9	−10.64
1936	10.655	3.735	6.92	6.129	1.22	1.24	69.20	63.8	−5.40
1937	12.213	4.435	7.78	6.471	1.20	1.15	77.78	69.8	−7.98
1938	13.251	5.221	8.03	6.490	1.24	1.27	80.31	63.0	−17.31
1938:[1]									
First	12.768	5.036	7.732	6.643	1.22	1.25	77.32	--------	--------
Second	12.892	4.898	7.994	6.403	1.25	1.27	79.94	--------	--------
Third	13.170	5.140	8.030	6.496	1.24	1.29	80.30	--------	--------
Fourth	14.178	5.810	8.368	6.470	1.24	1.31	83.68	--------	--------

[1] Quarterly.

Adjusting the purchasing power of the dollar after assuming that excess of exports had been paid for each year in gold for the 1915–33 period

Year	Excess of exports, merchandise, gold, and silver	Monetary gold stock	Monetary gold stock plus gold value of excess of exports	Money in circulation	Purchase power if excess of exports had been paid for with gold	Purchase power, Bureau of Labor Statistics commodities
	10	1	11	4	12	6
1915	$1.375	$1.718	$3.093	$3.077	$1.005	$1.44
1916	2.599	2.195	4.794	3.413	1.404	1.17
1917	3.131	2.823	5.954	3.840	1.550	.85
1918	3.278	2.870	6.148	4.370	1.406	.76
1919	4.457	2.842	7.299	4.728	1.543	.72
1920	2.880	2.581	5.461	5.190	1.052	.65
1921	1.297	2.002	3.299	4.664	.707	1.02
1922	.473	3.514	3.987	4.246	.903	1.03
1923	.079	3.773	3.852	4.533	.804	.99
1924	.759	4.251	5.009	4.591	1.080	1.02
1925	.852	4.093	4.945	4.580	.905	.97
1926	.302	4.165	4.467	4.644	.906	1.00
1927	.695	4.277	4.972	4.605	1.070	1.03
1928	1.448	3.919	5.367	4.495	1.193	1.05
1929	.686	3.995	4.681	4.474	1.046	1.16
1930	.513	4.184	4.697	4.258	1.103	1.37
1931	.196	4.416	4.612	4.669	.983	1.54
1932	.607	3.952	4.561	5.328	.856	1.52
1933	.306	4.060	4.366	5.575	.783	1.34

Excerpts from chart entitled "Ratios of National Income, Bank Deposits, Loans and Investments to Gold Reserve"

	1926	1929	1938
Gold reserve	4.165	3.995	8.031
Ratio	1.0	1.0	1.0
Circulating currency	4.644	4.474	6.490
Ratio	1.114	1.118	.8047
Bank deposits	50.15	54.57	52.40
Ratio	12.03	13.64	6.49
Bank loans	36.77	41.91	21.33
Ratio	8.82	10.4	2.64
National income	80.6	80.7	63.0
Ratio	19.3	20.0	7.8
Bank investments	15.24	16.49	26.7
Ratio	3.65	4.12	3.31
Wholesale prices	100.0	95.3	78.6

Governor Eccles, in his statement covered certain statements which were made by Gov. Chester Davis in his address before the annual convention of the American Farm Bureau Federation, at New Orleans, December 15, 1938 but not including the following statement by Governor Davis:

The annual rate of deposit turn-over, which was estimated at 20 times in 1926 and 26 times in 1929, is running at a rate about 13 times for this year.

Neither Governor Eccles nor Governor Davis presented the fact that if the velocity of turn-over of deposits is now only one-half the rate during 1929, that under such circumstances the deposits in 1938 would have to be double those of 1929 in order to obtain the same volume of monetary transactions with the different rates of turnover which occurred.

Governor Eccles also stated as follows:

Strangely enough that 59-cent dollar will buy about 20 percent more than the 100-cent dollar bought.

This statement is too conservative. In terms of all commodities the present dollar will buy $1.30 of products, which means that the producers of this country have to give $1.30 worth of products to get $1 in money. It means that he gets 77 cents for a dollar's worth of products. Governor Eccles speaks from the standpoint of a banker who has his assets invested in dollars, in contrast to all producers and manufacturers, who have their dollars invested in commodities and products, which now have to be sold at panic prices. At this point, for the purpose further of illustrating the value of the dollar and the price level, I wish to insert two tables. The first table is entitled "United States Wholesale Prices, Quarterly (1926=100)."

(The table presented by Mr. Trent is as follows:)

United States wholesale prices, quarterly (1926=100)

	Foreign trade								Domestic							
	Exports				Imports				Farm products				All commodities			
1933	$0.48	$0.50	$0.56	$0.59	$0.39	$0.39	$0.46	$0.48	$0.43	$0.53	$0.57	$0.56	$0.60	$0.63	$0.69	$0.71
1934	.62	.62	.65	.65	.48	.50	.50	.51	.61	.63	.73	.72	.73	.74	.76	.76
1935	.65	.65	.65	.64	.50	.50	.51	.50	.78	.78	.80	.78	.83	.80	.80	.81
1936	.66	.65	.67	.68	.53	.54	.54	.55	.77	.78	.84	.89	.80	.79	.81	.83
1937	.70	.72	.72	.68	.58	.62	.62	.69	.94	.89	.86	.73	.87	.88	.88	.83
1938	.69	.66	.64	.63	.57	.55	.53	.54	.70	.69	.68	.68	.80	.78	.78	.77
Selling power of $35 worth of products (1938 average)	$22.92				$19.38				$24.00				$27.39			
Purchasing power of the dollar, quarterly:																
1933	2.08	2.00	1.79	1.69	2.56	2.56	2.17	2.08	2.33	1.88	1.75	1.80	1.66	1.60	1.44	1.41
1934	1.61	1.61	1.54	1.54	2.08	2.00	2.00	1.96	1.63	1.58	1.36	1.38	1.37	1.35	1.31	1.31
1935	1.54	1.54	1.54	1.56	2.00	2.00	1.96	2.00	1.27	1.27	1.25	1.27	1.26	1.25	1.25	1.24
1936	1.52	1.54	1.49	1.47	1.89	1.85	1.85	1.82	1.30	1.28	1.19	1.13	1.25	1.26	1.23	1.21
1937	1.63	1.39	1.39	1.47	1.72	1.61	1.61	1.69	1.06	1.13	1.16	1.37	1.15	1.14	1.14	1.20
1938	1.45	1.52	1.56	1.58	1.75	1.82	1.89	1.88	1.42	1.45	1.46	1.47	1.25	1.28	1.29	1.30
Purchasing power per ounce of gold (1938 average)	$53.46				$64.22				$50.75				$44.80			

It will be noted that the wholesale prices, in terms of exports, started in the first quarter of 1933 at 48 cents and, during the last quarter of 1938, were 63 cents. Wholesale prices in terms of imports for the same two periods were 39 cents and 54 cents, respectively. Wholesale prices for farm products were 43 cents and 68 cents, respectively, and all commodities 60 cents and 77 cents, respectively. It will be noted that all wholesale prices were much below par during the entire period, but import prices were the lowest and, therefore, threatened to offer serious competition to farm products and all commodities since the first of the year, when the new trade agreements went into effect.

The selling power of $35 worth of products at 1938 average price levels was $22 in terms of exports, $19 in terms of imports, $24 in terms of farm products, and $27.39 in terms of all commodities. The farm products are at the greatest disadvantage in competition with imports, but the all-commodities divisions were also at a serious disadvantage in competition with imports.

The condition is desperate for those who have both farm products and all commodities to sell at the subnormal prices above recorded, but when competition of the imports has to be faced, with a minimum of 20 percent advantage in favor of the importer, the situation is so hopeless that it can be remedied only by raising the level of stabilized prices, both domestic and imports, to parity, so as to give the American producer a much-needed protection.

The purchasing power of the dollar is given for the same period by quarters, these figures being the reciprocals of their respective wholesale prices. It will be noted that the purchasing power per ounce of gold at $35, 1938 average price level, is $53.46 in terms of exports, $64.22 in terms of imports, $50.75 in terms of farm products and $44.80 in terms of all commodities. Governor Eccles thinks about the high figures representing the purchasing power of an ounce of gold, but the mass of the American public have to think of the low figures representing the selling power of $35 worth of products.

The second chart, to be inserted at this point, is entitled "Weighted Index Numbers of Wholesale Prices by Groups and Subgroups of Commodities, 784 Price Series (1926=100)."

(The table presented by Mr. Trent is as follows:)

Weighted index numbers of wholesale prices by groups and subgroups of commodities, 784 price series (1926=100)

Year and month	Clothing	Cotton goods	Knit goods	Silk and rayon	Woolen and worsted	Other textile products	All textile products
1933:							
January	61.9	50.1	48.4	27.0	53.4	66.3	51.9
April	61.4	50.7	47.2	26.3	53.3	67.5	51.8
July	70.6	80.2	55.2	37.9	72.3	76.7	68.0
October	84.8	88.8	74.7	32.0	84.5	75.3	77.1
1934:							
January	87.5	86.5	70.6	29.7	84.3	76.9	70.5
April	85.7	88.2	64.2	28.4	82.0	78.9	75.3
July	81.9	85.1	59.5	24.5	80.7	69.6	71.5
October	79.1	86.6	60.5	24.8	74.8	68.5	70.3
1935:							
January	78.4	84.1	63.5	28.6	73.8	68.8	70.3
April	78.5	81.8	61.6	27.6	73.1	67.5	69.2
July	80.7	82.0	59.9	27.9	76.4	69.1	70.2
October	80.8	84.6	63.2	35.1	79.1	68.3	72.9

Weighted index numbers of wholesale prices by groups and subgroups of commodities, 784 price series (1926=100)—Continued

Year and month	Clothing	Cotton goods	Knit goods	Silk and rayon	Woolen and worsted	Other textile products	All textile products
1936:							
January	80.8	80.4	61.8	33.5	81.4	67.8	71.7
April	80.8	76.2	62.0	30.1	82.2	67.5	70.2
July	80.7	78.7	59.3	30.7	82.0	66.8	70.5
October	81.2	82.0	61.1	31.1	80.5	67.0	71.6
1937:							
January	83.9	91.9	64.4	34.5	91.9	66.2	77.5
April	86.8	95.1	65.9	33.8	93.5	68.8	79.5
July	90.1	86.8	64.8	33.9	94.4	69.3	78.3
October	89.4	73.1	65.8	30.6	90.1	69.0	73.5
1938:							
January	86.3	68.2	63.0	28.9	83.8	67.7	69.7
April	84.6	65.7	60.6	28.9	77.1	66.0	67.2
July	81.7	61.1	59.8	29.9	75.9	65.4	66.1
October	81.6	64.6	59.9	30.9	76.3	65.3	66.2
1938: Average for year	82.9	65.4	60.3	29.3	77.4	65.5	66.7
Selling power of $35 worth of goods (1938 average)	$29.01	$22.89	$21.10	$10.25	$27.09	$22.92	$23.34
Purchasing power per ounce of gold (1938 average)	$42.00	$53.20	$57.75	$119.35	$45.15	$53.20	$52.15

In this table the monthly wholesale prices are given quarterly for the period 1933–38, for the following: Clothing, cotton goods, knit goods, silk and rayon, woolens and worsted, other textile products and all textile products. As in the preceding chart, the selling power of $35 worth of goods is given for each subgroup, and likewise the purchasing power per ounce of gold for each subgroup. Here again the few who have their investment in dollars have great bargains. For instance, under the group of all textile products, $35 worth of goods on the 1938 price level have to be sold for $23.34, in contrast with the purchasing power per ounce of gold, at $52.15. It is generally conceded that when the purchasing power of a dollar is distorted to the extent of the present American dollar that it is disastrous for the country. There is no justice for the masses of the people of the United States in business and trade until selling powers and purchasing powers are at parity with one another. In times gone by, however, almost invariably the banker's policy has been to keep money dear and goods and property cheap. The fight that has been going on for several hundred years does not seem to change much in character.

I wish to insert a chart at this point showing that the price and purchasing power of silver directly influence the price level.

PURCHASING POWER OF AN OUNCE OF SILVER IN TERMS OF FARM PRODUCTS

This chart deserves the most profound attention on the part of those interested in raising the prices of farm products and all other commodities.

(1) It will be noticed that prices of all commodities and silver started to rise in 1915 as a result of the European war.

(2) It must be carefully noted that during the first half of the year 1920 both the price of silver and its purchasing power broke sharply, fully 6 months in advance of the collapse of all wholesale prices.

THE LEGAL BASIS OF THE SILVER PROGRAM

At the present time silver produced in the United States is being acquired by the Treasury under the so-called Thomas Amendment of May 12, 1933, as amended by the Gold Reserve Act of January 30, 1934. Technically, under the terms of the Thomas Amendment, the President is permitting free coinage of domestically produced silver. The power to do this expires June 30, 1939. This is not a matter of importance, however, because all that it will be necessary to do at that time in order to continue acquisition of domestic silver will be to resort to outright purchase under the powers conferred by the Silver Purchase Act of June 19, 1934. Such purchases could be made at any price up to $1.29 per ounce, and need not be made at the same price as that paid for foreign silver.

Purchases of foreign silver are all being made at the present time under authority of the Silver Purchase Act of June 19, 1934, which has no date of expiration.

February 7, 1939

THE SILVER PROBLEM

Continued purchases of silver by the Government are of most immediate concern to the Board of Governors on account of the effect of silver certificate issues on the credit situation. For every dollar issued in the form of silver certificates a dollar is added to the already large reserves of member banks. The Federal Reserve System's task of regulating the credit situation is thereby made that much more difficult and the time when it can be in effective contact with the money market that much more remote.

The amount of money in circulation in this country is determined by the current needs of the public for cash. It depends in no way on the kind of currency that is issued. When silver certificates are issued, that amount of currency becomes superfluous for meeting the cash requirements of the public and is deposited at the banks, and by them at the Federal Reserve banks. When member banks deposit this currency with the Federal Reserve banks it is added to their balances with these banks and increases their reserves. Member banks' reserves are now over $9,000,000,000 as against $2,500,000,000 at the period of greatest extension of bank credit in the 1920's. Although reserve requirements have been raised, reserves in excess of these requirements amount to $3,500,000,000. As the Board has pointed out in its Annual Report for 1938, there is no danger of inflation at the moment from the great expansion of bank credit that these excess reserves render possible; but at some time this danger may become real. To quote from the Report:

> "The ability of the banks greatly to expand the volume of their credit without resort to the Federal Reserve banks would make it possible for a speculative situation to get under way that would be beyond the power of the System to check or control. The Reserve System would, therefore, be unable to discharge the responsibility placed upon it by Congress or to perform the service that the country rightly expects from it."

The continued issue of silver certificates adds to this problem of excess reserves.

From a longer-term viewpoint, the Board has a concern also about the effect of continued silver purchases on the composition of the country's metallic reserves. The principal function of metallic reserves under existing conditions is that of settling international balances. Since silver will not be accepted by foreign monetary authorities in the settlement of international balances, silver purchases add little to this country's reserves available for foreign payments. At the same time, the dollars which foreigners have acquired from their sales to this country of silver, as well as of gold, have to a considerable extent gone into the purchase of securities or the building up of deposits with the banks. Foreigners' deposits with our banks are subject to withdrawal; American securities in foreign portfolios may be sold and the resulting dollar credits at the banks withdrawn. If this should occur in sufficient volume, there would be a demand for gold to meet the withdrawal of foreign funds.

Silver purchases, therefore, in effect build up gold claims against our banking system, without adding to our stock of gold. In the final analysis, it is the Federal Reserve System on which these claims would converge, because it has huge liabilities to the banks on deposits and to the general public on Federal Reserve notes. If foreign demands should develop, the impact of these demands would be on the Federal Reserve banks.

While our gold reserves now seem more than sufficient to take care of any probable foreign withdrawals, there can be no assurance that this will always be the case. Radical changes in the flow of goods and of capital may occur in the future, as they have in the past, and the weakening through silver purchases of our international reserve position, even though it may look impregnable today, is a matter of concern to the Board.

The Board is also concerned about the fact that continuous issues of silver certificates tend to supplant Federal Reserve notes in our circulation. It was the intent of Congress, as expressed in the preamble to the Federal Reserve Act, that the Federal Reserve banks should furnish an elastic currency. A continuous diminution of the proportion of Federal Reserve notes in the country's currency would be contrary to the purpose of Congress of gradually simplifying and unifying the currency under the Federal Reserve System.

Other phases of the silver policy, such as its relation to the silver industry here and abroad, lie outside the field of the Board's responsibility.

February 8, 1939

SUGGESTED METHOD OF DEALING WITH THE SILVER PROBLEM

Purchases of silver, except as needed for subsidiary coin, should be discontinued, unless Congress wishes frankly to continue the subsidy to silver producers. In that case purchases should be limited to the output of American mines. Foreign purchases of silver cannot be justified as a subsidy, for the United States surely does not wish to subsidize foreign silver mines. They cannot be justified on monetary grounds, as has been explained in the accompanying memorandum. They make the problem of credit regulation more difficult and complicate our currency system.

What I should recommend is: (1) that the Treasury discontinue silver purchases, except to the extent that silver may be needed for subsidiary coinage, and (2) that the Treasury never issue silver certificates against the free silver bullion now in its possession, which could be the basis of an additional $1,300,000,000 of silver certificates.

This proposal would require legislation:

(1) relieving the Treasury from the requirement to purchase silver up to the time when it would constitute one-fourth of our metallic reserve, or would rise in price to $1.29 an ounce, and

(2) providing that silver certificates outstanding should at no time exceed the amount paid for the silver purchased by the Treasury under authority of the Thomas amendment of 1933 and the Silver Purchase Act of 1934.

Such legislation would completely terminate the silver program. If, however, it were decided for any reason to continue purchases of domestic silver, then the Treasury should be instructed to issue to the Federal Reserve banks silver certificates in amounts sufficient to cover the funds disbursed in the purchase of the silver, except for such silver as may be used for subsidiary coinage.

THE TOWNSEND SILVER BILL (S.785)

The Townsend silver bill (S.785) abolishes the Government's silver purchase program and replaces it with two measures designed to create a domestic market for silver sufficient to take care of domestic production. These two measures are 1) prohibition of silver imports, with a few minor exceptions, 2) an appropriation of $250,000 to be used by the Bureau of Standards in research to develop new industrial uses of silver.

Abolition of the Government's silver purchase program

The Silver Purchase Act of 1934 is repealed in toto. All power of the President or the Treasury to acquire silver or alter its monetary value ceases. The only exceptions are: 1) the Treasury may acquire U.S. silver coins or replace worn silver certificates; 2) should the market value of the bullion in a silver coin rise above the face value of the coin, the Treasury may reduce the bullion content to whatever point is necessary to prevent illegal melting.

The Secretary of the Treasury is directed to set aside immediately 500,000,000 ounces of silver to cover requirements for subsidiary coinage. The Secretary is authorized to sell silver at the prices and in the amounts that he deems best, provided he does not use the amounts set aside for subsidiary coinage. He can, however, retire silver certificates in order to obtain silver for sale.

There appears to be one minor loophole. The Townsend bill does not abolish the power of the President to permit free coinage of silver; but this power expires June 30, 1939.

Domestic silver market

Even if all foreign silver was kept off the domestic market, the market could not for some time absorb the output of domestic silver mines at satisfactory prices. In 1937 output of the domestic mines was 72,000,000 ounces of silver while domestic consumption was only 28,000,000. In the 1920's output was somewhat more than twice consumption. It is doubtful if the Bureau of Standards could more than double industrial consumption of silver within a few years. Surplus output of silver would have to be sold on foreign markets for some time to come, and therefore the world price would govern the domestic market.