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* Corrected print.

These contests were the more animated, because, in the state governments generally, no principle³⁶ had been introduced which could resist the wild projects of the moment, give the people an opportunity to reflect, and allow the good sense of the nation time for exertion. This uncertainty with respect to measures of great importance to every member of the community, this instability in principles which ought if possible to be rendered immutable, produced a long train of ills; and is seriously believed to have been among the operating causes of those pecuniary embarrassments, which at that time were so general as to influence the legislation of almost every State in the Union. Its direct consequence was the loss of confidence in the government, and in individuals. This, so far as respected the government, was peculiarly discernible in the value of state debts.

[Pages 89-90.]

The prospect of extricating the country from these embarrassments was by no means flattering. Whilst everything else fluctuated, some of the causes which produced this calamitous state of things were permanent. The hope and fear still remained, that the debtor party would obtain the victory at the elections; and instead of making the painful effort to obtain relief by industry and economy, many rested all their hopes on legislative interference. The mass of national labor, and of national wealth, was consequently diminished. In every quarter were found those who asserted it to be impossible for the people to pay their public or private debts; and in some instances threats were uttered of suspending the administration of justice by private violence.

By the enlightened friends of republican government, this gloomy state of things was viewed with infinite chagrin, and many became apprehensive that those plans from which so much happiness to the human race had been anticipated, would produce only real misery; and would maintain but a short and a turbulent existence. Meanwhile, the wise and thinking part of the community, who could trace evils to their source, labored unceasingly to inculcate opinions favorable to the incorporation of some principles into the political system, which might correct the obvious vices without endangering the free spirit of the existing institutions.

³⁶ In the constitution of Maryland [no longer in existence], the senate was elected in such a manner as to bring a great proportion of character, wealth and talents into that branch of the legislature, and its duration was six years, during which vacancies in their body were filled up by themselves. A great majority of the house of delegates, declared in favour of paper money, but the bill was rejected in the senate. Each party made great exertions at the ensuing elections, and those against paper emission obtained the victory.

IMPROVEMENT OF MONETARY SYSTEM

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

REQUESTING

CERTAIN ADDITIONAL LEGISLATION TO IMPROVE THE FINANCIAL AND MONETARY SYSTEM OF THE UNITED STATES

JANUARY 11 (calendar day, JANUARY 15), 1934.—Read; referred to the Committee on Banking and Currency and ordered to be printed

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 individuals 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 Nation 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.

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78D CONGRESS }
2d Session }

SENATE

{ DOCUMENT
{ No. 115

HONEST INFLATION

Mr. WHEELER presented the following

ARTICLE FROM SCRIBNER'S MAGAZINE OF JANUARY 1934, ENTITLED "HONEST INFLATION", BY EDWARD TUCK

JANUARY 11 (calendar day, JANUARY 19), 1934.—Ordered to be printed

The firm and judicious resistance which President Roosevelt has offered to inflation has a sound basis. He recognizes that merely to add to the already swollen volume of promises to pay can avail nothing against the day of reckoning when paper money comes to its ultimate redemption. The basis for the demand for inflation rests upon the growing world conviction that the real cause of present economic conditions is monetary. To this "monetary morbus", as Cernuschi called it, is due the present collapse in prices, stagnation in business, and increase in poverty, in all countries.

A correct idea of the nature and functions of money in general is a necessary preliminary to the proper appreciation of the merits of the conflict between bimetallism and monometallism which is now more and more agitating the commercial world.

Money is an instrument of valuation, established by law, to measure, compare, and exchange values, and to serve as a legal tender for debts. The material of money is in principle unimportant, except so far as it is liable to affect the aggregate amount in existence—the total monetary mass. The value (purchasing power) of money is increased or decreased, *ceteris paribus*, in inverse proportion to its volume. Indefinite issues of paper money create redundancy and depreciation. Comparative fixity or limitation of supply is therefore requisite to give reasonable stability to the value of money. Paper money can be increased in amount indefinitely, at the will of the sovereign or of the legislators, while metallic money is susceptible of only a limited and measurable annual increase, which distributes itself among the nations. Added to the total accumulated monetary mass existing throughout the world, this increase forms but a very small percentage, and serves barely to supply the needs of constantly increasing population, production, and commerce. For these reasons it is agreed that metallic money alone constitutes a safe standard of value. From very early days, gold and silver have been selected by nations whose civilizations are built upon trade as the world's money metals. Hence they have received the name of "the precious metals."