January 15, 1934 [Message To Congress; re-Currency System]

FDR Speech File

SOME NOTES ON A MESSAGE RELATING TO GOLD AND OTHER MONETARY MATTERS

One of our immediate and fixed purposes, now on the way to attainment, is to raise the dollar value of commodities. When I last discussed this matter, I said, as I had 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 make up this Nation are involved, we cannot reach the goal in only a few months. We may take one year or two years or three years."

Another of our purposes, which is a closely related one, though lying somewhat further in the future, is to develop a monetary standard of value which will be as stable as possible in purchasing and debt-paying power.

Our Gold Reserve

Paralleling both of these purposes is that of developing a modernized monetary system providing a sound and adequate currency amply backed by our huge metalic reserves.

Control of its money has long been the absolute prerogative of every important government of the world. As basic as every government's right to do so is its duty to see to it from time to time that the control of its monetary system is adequate and responsive to current needs.

While it is not yet possible to draw definite plans for a modernized monetary structure that will be both ample and secure, the time has arrived for us to begin to lay its foundation. This is the principal matter upon which I address you at this time.

Not until the present world-wide monetary confusion has been reduced, will it be fruitful to discuss a better distribution of the world's monetary metal to act as a reserve base of national currencies, but we can now take a step forward by determining at this time where the ultimate responsibility for the custodianship of our proper portion of the world's gold supply shall be.

A deap-seated desire for added certainty lies at the root of the time-honored and wide-spread practice among nations to secure those forms of money, having only nominal intrinsic value, with deposits of their most highly prized commodities. The precious metals have been most commonly used as this pledge of security, but, whatever the thing pledged or the precise legal mold into which the pledge has been cast, the underlying thought and purpose has been to provide an enduring pledge of faith that, whatever the body or form of the trust, it should be and remain a permanent guaranty of the certain worth of all the forms of money resting upon it.

The very foot of the foundation of a firm and sound monetary structure is the safe-keeping of this charge. In beginning to build more amply and securely for a new day, we have first to determine where this ultimate responsibility shall be placed. Nations at various times, have placed it now in their public treasuries and again in private or semi-private fiscal institutions forming a part of their national financial structure. Each generation or so our banking structure has had to be changed in response to changing needs, but the national Government provides that permanence which is in keeping with a lasting custodianship of such importance; and the Government furnishes a base of responsibility as broad as the public welfare to be safeguarded since its interests are always those of the entire nation.

We may well begin to rebuild our monetary structure by laying a foundation as permanent and broad as government itself. With this in view, it is recommended that the Congress enact appropriate legislation to accomplish the following purposes, as necessary parts of this first step in developing a sound and effective monetary system:

1. That title to all present and future supplies of monetary gold, in addition to that already held by the Treasury, be vested in the United States Government; and that gold certificates be paid for it at the present statutory rate of $20.67 an ounce; that these and all other gold certificates be, as now, secured at all times by one hundred per cent deposits of gold pledged as collateral therefor, and represent obligations for dollars of such weight and fineness as may be established from time to time. This legislation, besides placing the ultimate custodianship of our gold reserves where it should be, will have the further

effect, to which all are agreed, of making immediate the Government's possession and ownership of the added dollar value of the country's stock of gold that would result from any decrease in the gold content of the dollar which may be made in the public interest. It will also, with equal justice, cast upon the Government the loss of such dollar value should the common interest in the future require an increase in the amount of gold designated as the dollar.

2. That all gold thus coming into the Treasury, and all gold now there, be set aside as a permanent monetary reserve of the United States, to serve in the future as the gold base of our monetary system and as the medium for settling international balances.

3. That this monetary gold reserve be cast into bars each containing a minimum of one hundred ounces not less than nine-tenths fine, which in the future will be released only for the purpose of paying foreign balances.

4. That, from newly mined and scrap gold, ample provision be made through the Mints to provide gold for industrial uses in amounts convenient for both small and large users, any excess being added to the Treasury's stock of monetary gold.

Stabilization of Exchange Rates

Some legislation is needed to take care of a double uncertainty which, for the present, seems unavoidable. I said last October, "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."

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The standard of value of other important nations is subject to like uncertainty. I stated in my message to the American delegation in London last July that the permanent stabilization of every nation's currency is one of our broad purposes. We all eagerly await the time when world sentiment and conditions will make it possible to attain stabilization both within and among nations. But in the meantime, this twofold interim uncertainty creates the temporary problem of stabilizing foreign exchange rates in the interests of our people.

The Secretary of the Treasury is now authorized by law to buy gold at home or abroad in amounts up to the present statutory limit of public borrowings, and to sell here or elsewhere any gold not required for certain purposes named in the statutes involved. Some amendments to this legislation would add to its convenience, and the Secretary of the Treasury should be given the express power to deal in foreign exchange as such. Two billion dollars should be designated as a fund for the purchase and sale of gold or foreign exchange, as the regulation of exchange rates may require.

There are minor changes in other legislation relating to fiscal matters which would facilitate the handling of current problems in this field. The Secretary of the Treasury is prepared to submit information concerning them to the appropriate committees of the Congress.

File Morgenthau Jan. 10, 1934

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Except within relatively wide limits, it is ~~not yet~~ still impossible to determine the gold value of the dollar. But Whatever the exact rate should be, I am now satisfied, after careful study, that any revaluation at more than sixty per cent of the present statutory value of twenty-five and eight-tenths grains of gold nine-tenths fine would not be in the public interest. Present legislation fixes the lower limit of permissible revaluation at fifty per cent. In order to reduce uncertainty as rapidly as possible, I now recommend to the Congress that the upper permissible limit be fixed at sixty per cent.

File Morgenthau Jan 10, 1934

Essential to the Administration's purpose to raise the dollar value of commodities, to arrive eventually at a less variable standard of value and to strengthen the whole financial structure, is the development of a modernized monetary system providing a sound and adequate currency backed by our huge metalic reserves.

Control of its money has long been the absolute prerogative of every important government of the world. As basic as is this right is a government's duty to see to it that the control of its monetary system is adequate, and is responsive to current needs.

While the time is not yet ripe to draw definitive plans for a modernized monetary structure that will be both ample and secure, the hour has arrived for us to begin to lay its foundation. It is upon this basic subject that I address you today.

Not until the present world-wide monetary confusion has been reduced, will it be fruitful to discuss a better distribution of the world's gold supply to act as a reserve base of national currencies. We can now take a step forward, however, by determining at this time where the ultimate custodianship of our proper portion of this reserve shall rest.

A deep-seated desire for added certainty lies at the root of the time-honored and wide-spread practice among nations to secure those forms of money, having only nominal intrinsic value, with deposits of their most highly prized commodities. The precious metals have been most commonly used as this pledge of security, but, whatever the thing pledged or the precise legal mold into which the pledge has been cast, the underlying thought and purpose has been to provide an enduring pledge of faith that it should be and remain a permanent guaranty of the certain worth of all the forms of money back of which governments placed that pledge.

The very foundation of a firm and sound monetary structure is the safe-keeping of this charge. In beginning to build more amply and securely for a new day, we have first to determine where this ultimate responsibility shall be placed. Nations, at various times, have placed it now in their public treasuries and again in private or semi-private fiscal institutions forming a part of their national financial structure. Each generation or so many of our other institutions have had to be changed in response to changing needs, but the national Government provides that permanence which is in keeping with a lasting custodianship of such importance; and the Government furnishes a base of responsibility as broad as the public welfare to be safeguarded since its interests are always those of the entire nation.

We may well begin to rebuild our monetary structure by laying a foundation as permanent and broad as government itself. With this in view, it is recommended that the Congress enact appropriate legislation to accomplish the following purposes, as necessary parts of this first step in developing a sound and effective monetary system:

1. That title to all supplies of American owned monetary gold, in addition to that already held by the Treasury, be vested in the United States Government and that gold certificates be paid for it at the present statutory rate of $20.67 an ounce; that these and all other gold certificates be, as now, secured at all times by one hundred per cent deposits of gold pledged as collateral therefor, and represent obligations for dollars of such weight and fineness as may be established from time to time. This legislation, besides placing the ultimate custodianship of our gold reserves where it should be, will have the further effect, to which all are agreed, of making immediate the Government's possession and ownership of the added dollar value of the country's stock of gold that would result from any decrease in the gold content of the dollar which may be made in the public interest. It will also, with equal justice, cast upon the Government the loss of such dollar value should the common interest in the future require an increase in the amount of gold designated as the dollar.

2. That all gold thus coming into the Treasury, and all gold now there, be set aside as a permanent monetary reserve of the United States, to serve in the future as the gold base of our monetary system and as the medium for settling international balances.

3. That this monetary gold reserve be cast into bars of such size and fineness as are convenient for paying foreign balances, and that in the future it be released for this purpose only.

Some legislation is needed to take care of a double uncertainty which, for the present, cannot be wholly avoided. Except within relatively wide limits it is still impossible to determine what the gold value of the dollar should be. The standards of value of other important nations are subject to like uncertainty.

In my message to the American delegation in London last July I expressed our common interest in the permanent stabilization of every nation's currency. We all eagerly await the time when world sentiment and conditions will make it possible to attain stabilization both within and among nations. But, in the meantime, it is important that we reduce present uncertainty as much as is now possible. To this end I recommend two measures.

Whatever the exact gold value of the dollar should be, I am now satisfied, after careful study, that any revaluation at more than sixty per cent of the present statutory value of twenty-five and eight-tenths grains of gold nine-tenths fine would not be in the public interest. Present legislation fixes the lower limit of permissible revaluation at fifty per cent. I recommend to the Congress that it fix the upper limit at sixty per cent.

That we may be further prepared to bring some 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. In addition, there should be set up, out of the profits from any devaluation, a fund of two billion dollars for such purchases and sales of gold, foreign exchange and securities as the stabilization of the dollar may require.

Certain amendments of existing legislation relating to the purchase and sale of gold and to other monetary matters would add to its convenience and facilitate the handling of 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.

We are moving forward on a program for the rehabilitation of silver, which has always constituted a very important part of our own monetary structure, a greater one in the money systems of many important nations of the world, and 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 covering the coinage of newly mined silver, thereby putting us among the first nations to carry out the agreement as to silver entered into at the London Conference by sixty-six governments.

In accordance with its traditional policy, this Covenment took the initiative in having the subject of rehabilitating silver placed on the agenda of the London Conference, and proposed the agreement which the Conference unanimously adopted. Silver was the subject of a conference called on the initiative of the United States in Paris in 1878. We joined with France in calling a like conference in Paris in 1881. A monetary conference was called by the United States which met in Brussels in 1892. We again sought international agreement on this important subject in 1897 as did the Congress by formal enactment in 1890 and also in 1900.

An international agreement on silver has at last been reached, and we are proceeding to perform our part of it. It is appropriate that our further measures with reference to silver take account of this agreement.

All the sixty-six governments agreed to refrain from melting and debasing their silver coins, to replace low-valued paper money with silver coins, and to refrain from legislation that would depreciate the value of silver in the world market. Those countries 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 of silver which they would sell during any of the four years covered by the agreement.

If all these undertakings are carried out by the governments concerned, there will be a material change in the extent of the use of silver relative to that of gold. The relative production of gold and silver has shown considerable uniformity over comparatively long periods of time, but their uses are as important as their production in determining what the proper ratio of value between them should be. In consequence, while we are pressing forward toward the rehabilitation of silver along the lines of the London agreement, it would not be wise either to extend further the monetary use of silver or to attempt to determine its value relative to the future gold dollar until the results of that agreement and of our other monetary measures are known.