U. S. Gold Policy from April 1933 to De Facto Stabilization of the Dollar Upon a Gold. Basis in January 1934

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U. S. GOLD POLICY FROM APRIL 1933 TO DE FACTO STABILIZATION OF THE DOLLAR UPON A GOLD BASIS IN JANUARY 1934

by

Robert A. Hageman

A thesis presented to the Faculty of the School of Graduate Studies in partial fulfillment of the Degree of Master of Arts

Western Michigan University
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Robert A. Hageman
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An inadequate banking system and an attachment to monetary panaceas are both characteristic of the American past. When the Revolutionary War began, the colonists were ill-prepared to meet the growing burden of financial stress in the newly formed Confederation. In order to bring some degree of organization to the unstable monetary system, the Continental Congress fixed the ratio between gold and silver at 15.3 to 1 and authorized the issuance of Continental notes redeemable in Spanish-milled dollars or their equivalent in gold or silver. But after 1780, "continentals" depreciated so rapidly they soon ceased to circulate, and coins replaced them.

After the Confederation gave way to the Federal government, Congress passed the Coinage Act of 1792 and the United States had its first official monetary measure under the Constitution. The dollar was designated as the official monetary unit of the nation and it was defined in terms of both gold and silver at a mint ratio of 15 to 1. The bimetallic system established was felt by the Secretary of the Treasury, Alexander Hamilton, to be the best way to enhance the monetary stocks of the new nation. However, the period from 1792 to 1834 proved to be an unhappy one for the American monetary system. During this period, the value relationships between the two metals changed rapidly as the supply of silver on the world market increased proportionately more than gold. Despite the variations of ratios on the foreign market — 15.5 to 16.06 — the United States maintained its
mint ratio between the two metals at 15 to 1. It therefore became more profitable to export gold to European countries in exchange for silver. This meant that the monetary system of the United States faced a depletion of gold reserves and an abundance of silver at the mint. An attempt was made to rectify the situation when an act was passed in 1834 which set the mint ratio in America at 16 to 1. Ratio differences remained on the foreign market however; only now it became apparent that gold was overvalued and silver was undervalued. Soon silver began to disappear from circulation, and little was taken to the United States mint. In seeking a remedy, Congress passed an act in 1856 which placed America on a gold coin standard with silver to be used in a supplementary capacity. With the outbreak of the Civil War, however, the credit of the Federal government was at a low ebb and was still suffering from the repercussions of the Panic of 1857. In 1862, Congress authorized the issuance of fiat money, popularly called "greenbacks," which placed the country on a paper standard until the passage of the Resumption Act in 1875 when the relationship between greenbacks and gold was strengthened. By 1879 paper was circulating at a par with gold.

During the 1870's two important events occurred which disturbed the ratio between gold and silver. One was the increased output of silver, and the other was the German abandonment of the bimetallic standard in favor of gold. On the American scene a campaign was initiated by the silver mining interests and the debtors to do something for silver. In 1878 the Bland-Allison Act was passed providing
for the purchase of silver by the government, but neither the silverites nor the gold standard advocates were satisfied. Pressure mounted, and when the Western interests threatened to vote against the McKinley tariff bill in 1890, a compromise was arranged with the conservative Easterners to permit a more liberal purchase policy. However, the Federal gold reserve was weakened, and the Eastern interests began to fear that silver inflation would eventually take the country off the gold standard. This pressure culminated in the presidential campaign of 1896, in which the silver elements, led by the Democratic standard bearer, William Jennings Bryan, the "Boy Orator of the Platte," and the gold elements, led by Republican William McKinley and his front-porch campaign, arrayed creditors against debtors, and the moneyed East against the agrarian West and South. The Eastern gold supporters of McKinley led the way to victory, and four years later the Gold Standard Act was passed placing all forms of money issued by the United States on a parity with gold.

At the base of these monetary manipulations was an insufficient banking system. At the beginning of the Revolutionary War, little consideration was given to the idea of organizing a bank to facilitate the War's financing. But, in 1792 the Bank of North America, located in Philadelphia, secured permission from the Continental Congress to commence its business at a fixed capitalization of $100,000. Although the Bank of North America was generally regarded as the official bank of the United States, this view was subsequently challenged by Alexander Hamilton, who argued that it could not be considered a
national institution because it was granted its charter by the state of Pennsylvania. He recommended to Congress a central banking program providing for a national bank to act as fiscal agent for the government. In 1791 Congress responded with an act which established the First Bank of the United States. Although the bank's operations were generally regarded as successful, its charter was not renewed because many considered the bank unconstitutional and a threat to the growth and freedom of state-chartered banks.

The termination in the operations of the national bank resulted in the rapid multiplication of state banks. However, the War of 1812 witnessed a return to paper money expedients and attendant inflation which emphasized the need for a more responsible policy in matters of money and credit. In 1816, this concern led to the establishment of the Second Bank of the United States, largely through the efforts of Alexander J. Dallas, Secretary of the Treasury under James Madison. Although the bank performed its intended functions creditably, particularly under the leadership of its third president, Nicholas Biddle, it unfortunately became involved in the political rivalry between Henry Clay and Andrew Jackson. In 1832 a Clay-inspired attempt to renew the bank's charter met a Jacksonian veto. When the bank's original charter expired in 1836, it left the American economy more dependent on small private banking institutions to supply the economy with money. A period of "wildcat" banking ensued, marked by violations of sound banking principles and the absence of a central banking system. The Civil War called attention to the defects in the American
banking system, and in 1864 the National Banking Act was passed to provide for a uniform bank note and a market for government bonds. That the new banking system was incapable of meeting the challenges of the post Civil War economy is attested to by the continuing high rate of bank failures and the depleting money supply.

Once again a remedy was sought. This time it took the form of the Federal Reserve Act adopted in 1913. The Act created a government-controlled, decentralized banking system capable of assuring an elastic currency. With its passage came the general feeling that the chronic instability in American banking and currency patterns had been eliminated.

The experience of the 1920's shattered the optimism engendered by the passage of the Federal Reserve Act. The American record of bank failures in that decade was by far the worst of any country in the world. In 1921 the United States had 30,800 banks. At the end of 1933, this number had diminished to 15,200.¹ The decrease is to be explained partly by mergers, but more importantly by outright failure and loss. In 1931, John Maynard Keynes, noted British economist, cautioned that the financial position of the banks in America was the weakest element in the whole economic setting.² Each year, beginning


in 1921, bank failures increased in number, and the amount lost annually in banking deposits became progressively worse. From 1921 to 1929 over 600 banks failed each year; even in the boom year of 1929, 642 banks failed. During 1930 and 1931, 2,298 banks failed with deposits of $1,692,000. In 1932 the tide was still high, and by March, 1933, the whole banking system had collapsed. Although the banking legislation of the early days of the New Deal did improve the situation, the vital statistics on banking at the year's end revealed that some 1,730 more banks, with deposits reaching a total of $2,250,000,000, had closed outright or were permanently suspended.³

Among the major reasons generally assigned to this appalling record of bank failures and to the economic collapse in 1929 were the significant gains in power achieved by the individual Federal Reserve banks at the expense of the Board of Governors in Washington, the depression from which agriculture had been suffering since 1921 and the corresponding exertion of pressure on most country banks, the great inflation of bank credit, and the increasing proportion of highly speculative securities and nonliquid real estate in the portfolios of commercial banks.⁴

After the market crash of 1929, other developments also contributed to the acute economic paralysis that crept over the United States.

³Angell, loc. cit.
Among these were the financial crisis which began with the failure of the Kreditanstalt in Vienna in June, 1931, which put the international gold standard under intense strain and increased the pressure on the American economy; an exodus of American funds to other countries; runs on banks; and the hoarding of cash. It has also been argued that President Herbert Hoover's attempts to promote recovery through the Reconstruction Finance Corporation constituted an official admission of serious banking difficulties and led to a large withdrawal of foreign capital. As a result of these untoward developments, by October, 1932, the banks found themselves in a precarious situation. That month, all banks in Nevada were closed. By February, 1933, the banks in Louisiana and Michigan had closed, and by the end of that month many of the remaining states had taken the same step.

In the assessment of the causes of the banking and currency crisis, it has been argued by many economists of traditional persuasion and by political leaders like Herbert Hoover that the currency crisis was also promoted by the public's apprehension, in late 1932 and early 1933, over the possibility of monetary experimentation, or what Hoover called "tinkering with the currency." Grounds for such fears, so the argument runs, were supplied by the insistence of economists like George W. Warren and Frank A. Pearson of Cornell University that the government adopt a policy of managed currency, by the failure of Franklin Delano Roosevelt to take a strong stand for

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sound money during the election campaign and the interregnum period, and by the rumors following the election that F.D.R. intended to advocate dollar devaluation and radical monetary measures.6

Accepting these arguments, one could say that the banking and currency collapse in early 1933 might have been prevented if F.D.R. had joined Hoover in a bipartisan declaration that the gold standard and the existing gold dollar would be maintained, and that, if necessary, the nation's financial resources would be mobilized in support of gold. Such an agreement might have resulted in the avoidance of the breakdown of the American gold standard and the attendant dollar devaluation. However, such a policy was not pursued.

In any event, F.D.R. faced a deepening crisis when he entered office on March 4, 1933. When Roosevelt spoke to the nation on inaugural day, he declared that "the only thing we have to fear is fear itself" and concluded by saying that the duty of government is to protect the economic welfare of the people by waging war against depression. Some of the steps taken by the President in waging this war can be viewed as short-run measures to cope with the immediate emergency by alleviating suffering and promoting recovery. Others can be viewed as long-run reforms emphasizing slum clearance, better

housing, and security against old age, unemployment, and illness. In
the area of monetary and banking policy, the philosophy of the New
Deal was based upon a more positive role for government, marked by
credit expansion and cheap interest rates.

This paper is primarily concerned with the early monetary and
gold policies of the New Deal. Its purpose is to describe the vagaries
of the administration's monetary policies as they relate to the
position of gold from April, 1933, to January, 1934; the rationale
behind these policies; and the differing viewpoints held by
contemporary authorities on the subject. The New Deal monetary
policies during the aforementioned period fall readily into three
phases: (1) the abandonment of the gold standard in April, (2) the
inauguration of a deliberate policy of progressive devaluation in
October; (3) de facto stabilization in January. Each of these will be
treated in successive chapters.
CHAPTER I

ABANDONMENT OF THE GOLD STANDARD

At the beginning of World War I, most nations of advanced political and economic development operated on the gold standard system. But the war and the peace settlements that followed created economic distortions and chauvinistic attitudes that eventually undermined the deep attachment to the precious metal. When England suspended the gold standard on September 21, 1931, nations all over the world began to halt the workings of the gold standard either partially or completely. Public reaction in those nations responded by liquidating its capital holdings abroad and demanding payment in gold. The effect led to a complex network of gold inflows and outflows and a desire on the part of all governments which operated under such a system, to strengthen their own gold positions. Naturally, the United States, with its traditional attachment to gold was shaken by these developments as it also became caught in this complex struggle. The outflow of gold from the United States began when European central banks, banking institutions, and private firms withdrew gold from the vaults in America. On the domestic scene, the American people withdrew gold from the Treasury and the banks for purposes of hoarding. There could

7The gold standard, for purposes of this paper, is that which is defined by Kemmerer, op. cit., p. 194 as a monetary system where the unit of value, in terms of which prices, wages, and debts are customarily expressed and paid, consists of the value of a fixed quantity of gold in a large international market which is substantially free.
only be one outcome - an acute credit contraction.

It was in a contest of credit contraction, mounting bank failures, and increasing concern about the future of the gold standard that the Federal government, beginning with the Glass-Steagall Act in 1932, instituted a policy of deliberate manipulations of our monetary system which has been a factor in economic policy ever since. The goals sought and the means to achieve these goals through monetary manipulations have been inconsistent and diverse: to protect our gold stock, to protect the price level, to increase the supply of money, to protect the monetary system itself, and to maintain the value of the dollar in foreign exchange. With this confusion of objectives, monetary policies and their execution were characterized by overnight changes, twenty-four hour agreements, and the establishment of a two-billion dollar stabilization fund for which the President and the Secretary of the Treasury were accountable to no one.

When F.D.R. was inaugurated on March 4, 1933, the ceremonies and celebrations were organized around the political theme of "Happy Days Are Here Again," but the mood of the country, as Roosevelt acknowledged, was one of fear, brought on largely by runs on banks and hoarding of currency. Practically every bank in the nation was closed; a recession in business and industry had prevailed for some three and one-half years resulting in the decline of commodity, security, and real estate prices; debtors were unable to meet their obligations and creditors refused to extend them.

On March 5, the President began his attack on the banking problem by declaring a four-day banking holiday in which all banking transactions were suspended, except for those authorized by the Secretary of the Treasury with the approval of the President. With the declaration of the banking holiday, the administration had time to prepare the emergency banking legislation which Secretary of the Treasury William H. Woodin agreed to have ready by March 9, when the special session of Congress was to convene. The President also placed an embargo on all gold exports by invoking provisions of the 1917 Trading-with-the-Enemy Act.

The first measure enacted by the special session of the Seventy-third Congress was the Emergency Banking Act designed to clarify Presidential authority over transactions in credit, currency, gold, and silver in a period of national emergency and to promote the re-establishment of banking facilities. It gave the President power to control movements of gold at the domestic and international levels and empowered the Secretary of the Treasury to regulate the surrender of gold coin and gold certificates. Section 2 of the Act amended the 1917 Trading-with-the-Enemy Act, making its terms applicable not only during war, but also during any other period of national emergency declared by the President.9 This was the first step taken by the Roosevelt administration to enlarge government control over the financial institutions of the nation. In the words of Jeannette P. Nichols,

the monetary policy of the "United States seemed to be moving further in the direction of economic nationalism ..." Other provisions of the Act broadened the base of the Federal Reserve Act by providing for the issuance of Federal Reserve bank notes to Reserve member banks up to one-hundred per cent of those government bonds held by the banks; the Federal Reserve banks were empowered to make loans to nonmember state banks and directly to business enterprises; and the Reconstruction Finance Corporation was permitted to subscribe to preferred stock of national banks and to make loans to any national banking association, state bank, or trust company which the Secretary of the Treasury felt was in need of funds for capital purposes. Therefore, with the extension of Presidential authority under the 1917 Act and a broader base from which the Federal Reserve Act was to operate, the banking system, the monetary system, and the capital market were brought under the control of the Federal government.11

Although the public generally responded promptly and favorably to the Emergency Banking Act by returning $1,225,000,000 of currency deposits to reserve banks by April 4, and the ratio of bank reserves to Federal Reserve notes and deposits combined, advanced from 45 per cent to 60 per cent, some of the populace were obviously fearful of the

10Jeanette P. Nichols, "Roosevelt's Monetary Diplomacy in 1933," American Historical Review, LVI (January, 1931), 301.

dollar itself, for a flight of American capital to other countries began. Under this pressure, as gold restrictions on exports had removed the free market checks on exchange rate fluctuations and had caused doubt concerning the firmness of American adherence to the gold standard, the value of the dollar on foreign exchanges began to depreciate.

Some have viewed the monetary course pursued by the administration as a precarious one, holding that suspension of gold shipments abroad without an accompanying declaration of intent to resume shipments when the proper conditions were obtained had the result of promoting speculation in gold. Also questioned was the government’s course in assuming moral responsibility for the solvency of the banks, reopened under the terms of the Emergency Banking Act, and the insolvency of those not reopened. Raymond Moley, a member of Roosevelt’s first “brain trust,” writing several years later, recalled:

All of us around the Treasury were aware of the danger—the critical and ever-present danger—that in the hurry-scurry glibulous mistakes would be made, that banks would be opened that should be kept closed and that banks would be closed that might, if they were permitted to open, weather the storm.

The proper psychological atmosphere was created however, and the public did back the administration’s policy by making deposits in the reopened banks. Although the Emergency Banking Act restored public confidence in the banking system, it did little to promote economic

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13Moley, op. cit., p. 151.
14Ibid., p. 151.
recovery or improve the price level which by now was beginning to assume a greater role in administration circles to alleviate depressive conditions.

Among the proposals for achieving these goals, inflation found support in a variety of quarters. By 1933, the inflationists were convinced that social and economic chaos would prevail if policies of inflation were not pursued and they began to form themselves into groups and committees. These groups appeared in various sectors of the society. Business and farm interests indicated support for inflation through the Committee for the Nation. Its four-man directing committee consisted of James H. Rand, Jr., President, Remington Rand, Inc.; Frederick H. Frazier, Chairman, General Baking Co.; Lessing J. Rosenwald, Chairman, Sears, Roebuck and Co.; and Frank H. Cemaner, President, Dairymens' League Cooperative Association, Inc. In Congress inflationary groups from the Middle West, the West, and the South found a leading spokesman in Senator Elmer Thomas, the Oklahoma Democrat and persistent inflationist and managed currency advocate. The public also found a spokesman for inflation, when the Reverend Charles E. Coughlin appealed to the masses for the support of silver inflation in his spirited sermons broadcast direct from the Shrine of the Little Flower in Detroit, Michigan. In all the various sections of American life, the pied-pipers of inflation were leading the public to the inflationary trough.

The proposals put forth by the inflationists were directed to three main ends: (1) to lighten the burden of our debt, (2) to protect us against foreign currencies, (3) to help labor.

As the inflationary groupings increased in strength and exerted more pressure, the President, on April 5, under authority given him by the Emergency Banking Act, issued an Executive Order prohibiting the hoarding of gold coin, gold bullion, and gold certificates, within the continental United States by individuals, partnerships, associations, and corporations. Holders of these forms of money, had until May 1, to turn them in to a Federal Reserve bank. Failure to do so could bring a $10,000 fine and ten years imprisonment.16

With the future of gold now resting on precarious ground, a New York bank requested and was granted a license to export $600,000 in gold bars to the Netherlands on April 13. From April 15 to 17 licenses were granted for the export of $8,000,000 in gold bars to France. On April 18, however, licenses applied for were refused and on April 19, it was officially announced that no further licenses would be granted.17

The following day, another Executive Order declared the gold standard to be officially abandoned. The Order prohibited the exporting or further earmarking of gold for foreign account; however, provisions were made for licensing the export of gold to those who were covered by the various exceptions provided for in the original Executive Order of April 5. The Secretary of the Treasury was

16"Congress Votes," Congressional Digest, 10.

17U.S., Federal Reserve Board, Annual Report, XX (1933), 96.
authorized to regulate all transactions in foreign exchange, transfers of credit from any banking institution within the United States to a foreign branch or to any foreign bank, and the export of gold.\(^\text{13}\)

The abandonment of gold has come to be associated, not with Roosevelt's original proclamation and the emergency legislation of March, 1933, but with the issuance of the proclamation of April 20. However, the terms of the latter are intelligible only when viewed in connection with the earlier legislation. Technically, the United States abandoned the gold standard March 6. Why then is such importance attached to the President's proclamation of April 20? Primarily, because it indicated a change in the point of view of the administration. During the six or seven weeks between March 6, and April 20, the policy of the administration had undergone a change as the increase of prices became the main objective of its monetary and financial policies. This was to be accomplished first by having the government persuade the Federal Reserve System to purchase government securities up to $2,000,000,000. These purchases were to be made from the public or the Treasury. No penalty tax was to be imposed if a deficit resulted in the reserve requirements of the Federal banks. But, if the Federal Reserve banks would not agree with the government on such a policy, or if this policy did not raise prices, the government would then take an alternative course, and the Treasury would purchase maturing government bonds up to $3,000,000,000. Finally, if prices still did

\(^{13}\text{ibid., 11.}\)
not increase, the government would then reduce the gold content of
the dollar.10

These three inflationary devices, all of which were eventually
used, were supplemented by the Thomas Amendment and the London Silver
agreement which found a place for silver in the banking reserves of
the country. Large public works programs supplemented these strictly
monetary measures.

With inflationary thinking playing an increasing role in the
administration's monetary policy, the way was being paved for the
rejection of the thesis that the solutions to world economic problems
should be international. The philosophy behind the inflationist stand
marked a definite break with the policies of gold standard countries,
such as France, Holland, Belgium, Italy, and Switzerland, who were in
opposition to inflationary price raising as the salvation for world
economic problems. These gold standard countries wanted to stabilize
the gold value of their currencies, but Roosevelt refused a stabiliza-
tion agreement which would have prevented him from resorting to an
inflationary policy deemed absolutely necessary to raise domestic
prices.20 The administration knew that United States membership in a

10 William Adams Brown, Jr., The International Gold Standard
Reinterpreted, 1911-1931 (2 vols., New York: National Bureau of

20 France, still on the gold standard, sought stabilization to
preserve an advantage it had gained by previous devaluation. Britain,
as leader of the non-gold nations also sought a stabilization agree-
ment to preserve its recent advantage in the export market, due to
its abandonment of the gold standard and a depreciated pound.
gold standard system would prevent the new economic program from being carried out if the dollar was fixed at its existing gold value and its existing ratio to European currencies.\footnote{21}

The abandonment of gold, announced on April 20, was not a necessary element of crisis policy, but simply a convenient device to achieve a policy viewed by Roosevelt as a desirable goal—to raise prices to the 1929 level and to improve the position of debtors.

For just a moment, let us consider the three major reasons why the function of gold is so important in the monetary mechanism. First of all, it is an adjusting item for the international balance of payments between countries; second, it serves as a currency regulation for countries adhering to the international gold system, and third, it is designed to promote confidence, backing, and redemption for the monetary system itself. At the President's first press conference on March 5, questions naturally arose regarding gold policy and whether or not the United States could still be classified among those countries basing their currency on a monetary gold standard. One of the reporters, who was present, asked the President to define exactly what a gold standard was. To this the President replied:

Over a long period four things have come to be recognized as requisites of a gold standard. When a country is complying with these it is on the standard. When it does not it is off the standard.

The first of these requisites is that there shall be a coin of definite weight and fineness. This of course is established by law. In the United States the standard unit is the dollar, consisting of 25.8 grains, 9/10 fine, or 23.22 grains of pure gold.

The second requisite is that there be free and unlimited coinage. In a country upon a gold standard one may take any amount of the metal to the Government and it will be coined

\footnote{21}Slum, op. cit., pp. 64-65.
into dollars of the established weight or rate. . . . in other words, this means that the Government will buy gold at a set price. In the United States this is about $.20.67 an ounce.

The third requisite is that there be convertibility of paper money into gold. This, in a sense, is the reverse side of free and unlimited coinage. In other words, just as one can take any amount of gold metal to the mint and get money in return at a definite rate, so he can take any amount of currency and get gold at a definite rate. In the United States we have seven kinds of paper money, some of which are not directly redeemable in gold according to the law, but all of which under the gold standard act of 1900 must be kept at a par with gold.

The final requisite is that there must be free movement of gold. This is of significance in the exportation of gold. It is through the enjoyment of this freedom that the currency of one country is kept at an approximate equilibrium with the currency of other Nations. Only when there is not such freedom of import and export of gold does the currency of one country fail to any substantial discount in relation to other currency.22

As one is able to see, although the President defined the gold standard, his reply was indirect and evasive regarding the United States as a possessor of a gold standard currency. The administration was still in the process of formulating its policies relative to money and gold, and most people, especially the traditional economic theorists, felt that a monetary system not tied to gold was out of the question. But on April 20, 1933 the administration had made up its mind; the gold standard was officially abandoned and the administration was free to launch its drive to raise prices to their 1926 level. On that day, in terms of the French franc, the American dollar dropped from 09.75c to 08.51c on foreign exchanges and by May 1, stocks had risen from one...
to nine and one-half points and trading had reached a volume of over 5,000,000 shares. The program was off to a fine start.

As a further expression of the new price-lifting program, the President, on May 7, in one of his fireside chats, declared that since there wasn't enough gold to pay the holders of gold obligations, the government, in the interest of justice, would allow none to be paid in gold. Roosevelt also announced, in the same speech, the administration's determination to reduce the burden of debt by reducing the purchasing power of the dollar through the restoration of the 1926 price level.

As inflationary pressure mounted, sentiment in both houses of Congress began to favor inflation of some sort. This sentiment expressed itself in the emergence of three inflationary blocs, each proposing to reach the common goal by a different route. The first of these was led by Senator Elmer Thomas who favored paper money expansion; the second, led by the "Louisiana Kingfish" Senator Huey Long wanted to do something for silver, and the third, led by Senator Tom Connally of Texas, sponsored devaluation. The first move toward a firm program of inflation was on April 17, when Senator Burton K. Wheeler of Montana introduced an amendment to the Agricultural Adjustment Act based on an extension of Long's bimetallism feelings. The result was close, but administration forces, opposed to this form of inflation and led by Senator William Borah of Idaho, defeated the measure 44 to 32.24


24U.S. Congressional Record, 73rd Cong., 1st Sess., 1933, LXVII, 1012.
The Congressional desire to give statutory sanction to inflation enjoyed greater success with a proposal by Senator Thomas which was considerably broader in scope than the defeated Wheeler measure. It gave the President the power to inflate the currency by several different methods. By now the inflationist drive was viewed with alarm by the administration. Roosevelt had spoken of wanting inflation, but not as a mandatory measure forced upon him by Congress. It was apparent that the proposal by Thomas would unite all the inflationist elements in Congress and very likely a majority in both houses. The President therefore agreed to accept the permissive powers of the amendment rather than have these powers thrust upon him as mandatory at a later time. After a week's debate, the Senate approved the amendment on April 23, by a vote of 64 to 21.25 Five days later the House gave its approval, 307 to 86.26

Under the Thomas Amendment, which took the form of a rider attached to the administration's Agricultural Adjustment Act, the President was given the power to inflate the currency by reducing the gold content of the dollar up to fifty per cent. It also provided for the free coinage of silver at a ratio to gold determined by the President and the issuance of paper currency up to $3,000,000,000.27 The last provision was never implemented by Roosevelt. The other devices, although not utilized under the aegis of the Thomas Amendment, were subsequently adopted by the President to implement another price-

25Ibid., 2651.
26Ibid., 2015.
raising scheme called the "commodity dollar" which was to be elaborated in afireside chat later that year.

Although inflation seemed to be the order of the day; much of the
President's time was taken up by conversations and visits with leading
members of the European states in conjunction with the forthcoming
World Economic Conference which was to be primarily concerned with
stabilization. In 1932, Hoover had committed the United States to
participation in an international economic conference to be held in
London on the grounds that the depression was essentially international
in its causes and scope. Although this approach did not square with
New Deal thinking, Roosevelt felt that the Conference could be of
great importance, especially on questions of trade and tariffs, and
he was chiefly responsible for fixing the Conference date for June 12.28
Paradoxically, despite his obvious attachment to policies of economic
nationalism, Roosevelt's interest in the forthcoming international
conference gave rise to a widely held impression that he was the chief
sponsor of the World Economic Conference and the international approach
to recovery.29

Preparation for the London conference was marked by a steady
stream of foreign emissaries to Washington. Britain, France, Belgium,
Germany, the Netherlands, Italy, and Switzerland were among those who
received invitations from Washington for the express purpose of

28 The New York Times, March 17, 1933, p. 4, reported that Roosevelt in
conversations with the British, French, and German ambassadors urged
the fixing of the earliest possible date for the World Economic
Conference.

29 Moley, op. cit., p. 207.
preparing a program which was to serve as the groundwork for the
Conference. The crucial question to be answered was how to get the
off-gold countries to re-establish a workable monetary standard.

James P. Warburg, financial advisor to the American delegation,
writes in his book, *The Money Muddle*, that the American delegation
suggested to the various missions present in Washington that the
following points should be discussed in regards to the international
monetary standard to be adopted:

We (the U.S.) said that gold seemed to us to be the
best measure of exchange; that the gold standard should be
improved, by adopting more economical methods of using gold;
that the importance of silver should be internationally
recognized by an agreement to present the sudden sales of
large stocks of it, an agreement not to debase silver
coins, and an agreement for the optional inclusion of a
small proportion of silver in Central Bank reserves.

All these ideas, which crystallized out of our con-
versations with the other nations, were finally welded
into a program for the American delegation to present in
London.26

The final program of the American delegation contained several
resolutions. Of primary concern to this paper is the fourth of these
resolutions, for it sought to establish a firm foundation on which an
adequate and enduring international monetary standard was to grow.

It ran as follows:

**NOW THEREFORE, BE IT RESOLVED,**
that all nations participating in this Conference agree
(a) That it is in the interest of all concerned that
stability in the international monetary field be attained as
quickly as practicable;
(b) That gold should be re-established as the inter-
national measure of exchange values;
(c) That the use of gold should be confined to its
employment as cover for circulation and as a medium of
settling international balances of payment. This means

that gold, either in coin or bullion, will be withdrawn from circulation; and that contracts, public and private, shall be made payable in the various currencies without reference to gold;

(c) That in order to improve the workings of a future gold standard a uniform legal minimum gold cover for the currencies of the various countries which shall adopt the gold standard shall be established, and that this legal minimum reserve shall be lower than the average of the present reserve requirements;

(e) That the central Banks of the various nations be requested to meet at once in order to consider the adoption of such a uniform minimum reserve ratio and that a metal cover ratio of 25% be recommended for their consideration,

Because silver was an important medium of international and domestic exchange for a large proportion of the world's population, it was also to be considered in international stabilization.

NOW THEREFORE, BE IT RESOLVED that

(a) An agreement be sought between the chief silver producing countries and those countries which are large holders or users of silver to limit arbitrary sales upon the world market;

(b) That all nations agree to prevent further debasement of their subsidiary silver coinages;

(c) That all the nations agree to remonetize their subsidiary coinages up to a fineness of at least 300 when, as and if consistent with their respective national budget problems; and

That it be recommended to the Central Banks that they agree that 80 per cent of their metal cover shall be in gold and 20 per cent shall be optionally in gold or in silver, provided that silver is obtainable at or below a price to be agreed upon as corresponding to the general commodity price level; and that governments agree to modify their respective laws to this effect.32

The six-man delegation to the Conference was appointed by the President. It consisted of Secretary of State Cordell Hull, Chairman


32This resolution later became known as the Pittman Resolution because it was introduced in London by Senator Key Pittman of Nevada. Ibid., pp. 113-14.
of the delegation; former Vice-Presidential candidate, James M. Cox, vice-chairman; United States Senators Key Pittman of Nevada, and James Couzens of Michigan; House of Representative members Samuel D. McReynolds, Chairman of the Foreign Affairs Committee, and Ralph W. Morrison, Texas Democrat and member of the Finance Committee. Also appointed were a number of staff advisors, including William C. Bullitt, Executive Officer; James P. Warburg, Financial Advisor; Fred M. Nielsen, Legal Advisor; Herbert Feis, Chief Technical Advisor; George L. Harrison, governor of the Federal Reserve Bank of New York; and C. M. W. Sprague, Harvard economics professor and financial assistant in the Treasury Department.33

Before the official delegation left for London, they met for a short briefing session with Roosevelt, at which time each of them was given an official memorandum consisting of the following major points:

1. establishment of general principles for a co-ordinated monetary and fiscal policy, (2) removal of foreign exchange restrictions,

3. laying the groundwork for an adequate and enduring international monetary standard, (4) stabilization under a gold standard, (5) agreements concerning silver to limit sales, prevent debasement of silver coins, remonetize subsidiary coinage, and to permit twenty per cent of the metallic cover to be in silver.34

No discussion of the critical issues occurred at this time as Roosevelt shrugged off any vital questions raised by the memorandum.


34 Nichols, op. cit., 308-309.
It has been noted by a leading historian of the New Deal that this meeting undoubtedly reflected Roosevelt's passive attitude toward the Conference and was the main reason the "delegation left Washington in a fog much denser than anything it might encounter in the North Atlantic."  

Another well-known historian has suggested a more cogent explanation of Roosevelt's attitude toward the Conference, by saying that foremost in the President's mind was to make any important decisions for himself and that, at this time, he had not made up his mind as to the monetary policy he was going to pursue.  

The World Economic Conference opened on June 12, 1933. Over two-thousand persons attended representing sixty-six countries from all over the world. From its opening however, oscillation prevailed and the Conference never did take hold. Although both Hoover and Roosevelt had refused to include war debts on the Conference agenda, J. Ramsay MacDonald, the British Prime Minister, opened the Conference proceedings by referring to the debts and supporting the British view for their reduction. The United States, increasingly concerned with its domestic price-raising schemes, attempted to keep the discussions on monetary issues in the background and emphasized trade and tariff agreements instead. But the European delegations insisted on making foreign exchange stabilization, which they considered a necessary preliminary to any domestic recovery, the central concern of the Conference.


36Nichols, op. cit., 300-308.

Roosevelt began to realize that his price-wage raising formula for domestic recovery was threatened by the Conference's insistence on stabilization. His objections were cabled to London. Balanced budgets and a permanent national currency based on standard reserves, said Roosevelt, were more important than "ultimate objectives."

Despite Roosevelt's cave, the Conference adhered to its position by calling for stabilization of exchange rates for France, Britain, and the United States during the life of the Conference. A plan was drawn up and dispatched to Washington for the President's approval. When Washington refused, the French were ready to abandon the Conference. Only Hull's heroic efforts prevented an abrupt breakup of the delegations.

At home, Roosevelt's action was imitated by the inflationists, but the American delegation in London was puzzled and shocked at the President's apparent change in attitude and thinking. On June 28, Con sent a cabledGram to Roosevelt saying: "If you love us at all don't give us another week like this one."38. Roosevelt replied two days later and declared: "Delighted the way things are going... . . . Prestige of delegation is generally excellent at home."39

When the Conference was able to smooth over the rough edges caused by Roosevelt's message of June 28, the fourth resolution of the American delegation's monetary program was introduced and sent to the gold committee. Its success depended on the stabilization of the dollar; but as the dollar continued to depreciate, the advantage of

38Nichols, op. cit., 215.
39Ibid., 216. Also see Cox, op. cit., pp. 266-27.
40Nichols, loc. cit.
Gold became increasingly alarmed. The French delegates in particular demanded reassurance as to the ultimate aim of American monetary policy, but the American delegation was unable to give it to them. Under the aegis of the newly arrived Raymond Moley, a leading "brain truster" who supposedly was well acquainted with Roosevelt's views, the American delegation drew up a declaration favoring international monetary stability. It was approved by the nations at the Conference and then sent to Washington. The declaration ran as follows:

DECLARATION, in which nations on the gold standard and those not on that standard join:

It is agreed that stability in the international monetary field should be obtained as quickly as practicable, and the common interest of all concerned is recognized;

That reestablishment of gold as a measure of international exchange value should be accomplished with recognition that the time at which each of the countries off gold could undertake stabilization and the time at which parity is established must be determined by the respective governments.

It is reassured by governments, the currencies of which are on the gold standard, that it is their intent to maintain the free working of that standard at current gold parities and in conformity to their respective monetary laws, believing that maintenance of existing gold parities is in the interest of world recovery.

Governments subscribing to this declaration whose currencies are not on the gold standard take note of the above declaration and recognize its importance without in any way prejudicing their own future ratios to gold, and reiterate that the ultimate objective of their currency policy is to bring back an international standard based on gold under proper conditions.

Each government whose currency is not on the gold standard agrees to adopt such measures as it may deem most effective to limit exchange speculations, and other signatory governments undertake cooperation to the same end.

Each of the governments signatory hereto agrees to ask its central bank of other governments which sign this declaration in limiting speculation end, at the proper time, reinaugurating an international gold standard.11

11pawley, op. cit., pp. 116-17.
Once again Roosevelt placed a damper on the spirited attempts of the Conference to achieve some sort of stabilization in international currency. Sending a message directly to London on July 2, Roosevelt made known his thoughts on what the aspirations of the Conference should be:

I would regard it as a catastrophe amounting to a world tragedy if the great Conference of Nations, called to bring about a more real and permanent financial stability and a greater prosperity to the masses of all nations, should... allow itself to be directed by the proposal of a purely artificial and temporary experiment affecting the monetary exchange for a few nations only... I do not relish the thought that insistence on such action should be made an excuse for the continuance of the basic economic errors that underlie so much of the present world-wide depression...

The sound internal economic system of a nation is a greater factor in its well being than the price of its currency in changing terms of the currencies of other nations. Let me be frank in saying that the United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt-paying power as the dollar value we hope to attain in the near future. That objective means more to the good of other nations than a fixed ratio for a month or two in terms of the pound or franc.

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

The Conference was called to better and perhaps to cure fundamental economic ills. It must not be diverted from that effort. It is for this reason that reduced cost of government, adequate government income, and ability to service government debts are all so important to ultimate stability...

42"Congress Votes," Congressional Digest, loc. cit.
If the Conference ever had hopes of significant achievement, they were definitely thwarted by F.D.R.'s message which Moley styled a "bombshell." Since the participating nations would not agree to consider the problems of trade agreements and tariff reductions until stability had been reached in the international, monetary field, the Conference ended in failure.

The "bombshell" message completely demoralized Hull and the American delegation with the exception of Senator Pittman who was able to push through an international agreement on silver. This was the one tangible result of the Conference, for it raised the value of silver by providing that silver-producing countries would absorb for coinage and legal reserves 25,000,000 ounces of silver annually.42 The European reaction, according to Moley, was one of explosive resentment. The Conference, "in an uproar, refused to continue work," as the President's new objective, "which seemed to be a currency based on commodity prices," was a complete antithesis to the reasons for the calling of the Conference.44 Although, in pre-Conference discussions, Roosevelt did emphasize stabilization under a future gold standard, he apparently did not feel that the summer of 1933 was the "practicable" time for such a maneuver.45 Agreement on this point, however, was not universal. Many persons of prominence did not feel "that stabilization ... would have interfered with Roosevelt's domestic program."46

43 Mitchell, op. cit., pp. 146-49.
44 Moley, op. cit., p. 261.
46 ibid., op. cit., p. 337. Also see Mitchell, op. cit., pp. 143-44.
In any event, the monetary features of Roosevelt's domestic program, which have already been discussed, moved the United States closer to a policy of inflation and cheap money, much to the chagrin of other nations at the London Conference. On the other hand, the inflationists were joyful over the Roosevelt drift in monetary matters. The inflationary policies of the administration, begun in the Spring of 1933, immediately resulted in an inflated dollar and a rise in prices. By July 10, the purchasing power of the dollar had fallen to 68 per cent of the 1928 dollar; wheat was $1.34 a bushel compared with 68 cents three months before; cotton had doubled in price since February 1, (it was now 11 3/4 cents per pound), and on July 10, the average price of stocks was 90.95 compared with 46.25 on March 2.47

When the administration abandoned the gold standard on April 20, Roosevelt defended the move as a "necessity" because of the large amount of gold exports to foreign countries. However, some professional economists have denied the "necessity" of the abandonment of gold on this basis. Notable among these people is Edwin Walter Kemmerer of Princeton University:

In August, 1931, a month before Great Britain went off the gold standard, America's stock of monetary gold was $1.6 billion (highest to that date); by April, 1933, this figure had declined to $1.1 billion (still the largest in the world and totaling one-third of the world supply).48

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47Warburg, op. cit., p. 130.

James W. Angell of Yale noted that the United States was never near the danger point in its gold holdings. He denied the alleged "necessity" of abandoning the gold standard.

Rather, the abandonment of gold must be viewed as part of the general program of currency and credit inflation then being developed, and must stand or fall with that program. We were not forced off gold; we simply elected to abandon it...49

With the abandonment of gold and the depreciation of the dollar leading the way to the rise in American security prices, the public, reflecting the inflationist spirit, regarded the movement as an index of prosperity. Senator Elmer Thomas spoke for the inflationists cause as he declared that "without inflation, even Wall Street would decay and its great edifices would become the abode of bats and owls."50

Moreover, the feeling prevailed that the new agricultural and industrial legislation working in an inflationary direction was raising prices and producing a considerable boom and that if the dollar was stabilized, the boom would come to an end.51

However, by late summer the United States was hard hit by a decline in the stock and commodity markets as well as a decrease in the volume of industrial production. Farm prices, the elevation of which had been a principal concern of the administration's inflationary policies enjoyed a modest recovery from March through July. The "Farm dollar," or the dollar the farmer receives for his products, was 8% cents of the general dollar at the beginning of March because of

49Angell, op. cit., 487.
50Schlesinger, II, 41.
51Ibid., pp. 42-49.
market oversupply, diminishing consumption, and the dissipation of export markets due to the fall in international trade. 52 By July, the "farm dollar" had increased six cents because of the hope for an increase in exports which was to be brought about by currency depreciation. 53 At the end of July, however, the policies on inflation and cheap money began to lose their force toward the re-establishment of a stable system of prices and values in the economy reacted violently. Wheat dropped to 60 cents a bushel; cotton dropped to 8 cents per pound; stocks lost 21 points, and the grain exchanges closed their doors. 54 The gain in the "farm dollar" was completely wiped out. The price break which fell with such severity on the farmer has been attributed to a number of developments such as the termination of speculation ending with the crash in July; sterling depreciating as fast as the dollar; growing doubts as to the effectiveness of the administration's agricultural program, and the increased cost of manufactured goods, due primarily, many feel, to the cutthroat competition and price fixing on the part of business under the NIRA codes. Indeed, by September, the farmer was growing restless and uneasy.

Obviously, the decline in the stock and commodity markets and the decrease in the volume of industrial production represented a setback as well as a serious problem for the administration. Because prices had not risen to the 1929 level, which was the express goal of the inflationary policies launched in March and April, the administration

52Warburg, op. cit., p. 141.
53Schlesinger, II, 55.
54Warburg, op. cit., p. 166.
and taken to prevent or control the disease. However, the scope of detection is limited.

In conclusion, the detection and the establishment of control measures are crucial in preventing the spread of this disease. Early detection and intervention are essential in controlling the outbreak and minimizing its impact.
A DELIBERATE POLICY OF PROGRESSIVE DEVALUATION

The basic theory behind the October, 1933 gold policy was formulated by George F. Warren, a leading "brain truster" of the early New Deal and professor of farm management at Cornell University. It might aptly be described as a quantity theory of money for it simply holds that the price level is determined by the demand for and the supply of goods in ratio to the demand for and supply of gold. In each case credit is reduced to a subordinate role, while stability in the growth rate of production and the variability of the monetary demand for and supply of gold is emphasized. Placing this theory into a formula we find the following:

\[
\text{Gold} \div \text{Production} = \text{Prices}^{55}
\]

Hence, the volume of gold, or the amount of goods which may be exchanged for a given weight of gold tends to be the same in every country. For example, if the supply of gold increased faster than the demand for gold, its value would fall; therefore more gold would have to be offered for the same quantity of commodities, and the price level

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would rise everywhere resulting in Warren's "commodity dollar."  

Warren argued that the price of gold controlled the general price level and that the proper action for an effective mode of inflation was to raise the price level by reducing the number of grains of gold in the dollar. With the aid of a formidable array of graphs and charts, Warren showed that for seventy years before World War I any year in which gold production did not equal 5.6 per cent of monetary stocks was usually followed by a period of falling commodity prices. He firmly believed that the major factor in the price rise between 1914 and 1929 was the reduced demand for gold and that the major factor in the decline of prices after 1929 was the rising demand for gold. The declining rate of increase in gold production, which had left an inadequate monetary supply for the normal 3.15 per cent growth rate of business, was rising 3.15 per cent annually, instead of the necessary 5.6 per cent. Therefore, it was impossible for the

56 The "commodity dollar" may be defined as tying the dollar to a fixed quantity of a number of commodities. To achieve this end, a bill of goods is selected; an average of the prices of these goods as of some date is chosen as being par, and this average is computed and called an index number. The index number is to be stabilized by changing the measuring rod - the dollar. This is done by manipulating the value of the dollar or by deflating or inflating a paper currency according to the "quantity theory," which simply means that with an increase in the number of currency dollars, other things remaining equal, the average of prices must rise in proportion and vice versa; in other words, the management of prices by managing the supply of money. Charles O. Hardy, The Warren-Pearson-Price Theory. No. 17 in the Brookings Institution Pamphlet Series (Washington: The Brookings Institution, 1925), pp. 21-26.

production of gold to provide sufficiently for industrial use and yet increase the monetary stocks enough to maintain a stable price level. According to Warren, the central argument then, on the gold side of the price question, was that prices in the post-1929 period could hardly be expected to equal those of the pre-1929 period unless there was some unusual and spectacular decrease in the demand for gold. Believing, as he did, that declining prices during the depression had been caused by the shortage in the world supply of gold relative to the demand factor, the only way to escape the depression was by way of a reversing process. In other words, by restoring the pre-depression price level through raising the price of gold to overcome the shortage in gold production, the commodity price level would simply be regulated by controlling the price of gold.

Warren insisted that the effect of changes in the price of gold upon commodity prices would be mathematically precise. If, for example, prices rose 0.2 per cent, the weight of gold purchasable by a dollar should be increased by 0.2 per cent which would correct the rise in prices. Conversely, with a fall of 0.2 per cent, the weight of gold purchasable by dollar should be decreased by 0.2 per cent.

If Warren's theory was valid, then the economic problems of the United States could be solved. For if the relationship between the dollar and gold were varied in such a way as to raise the dollar value of gold, prices would rise in proportion to the fall in the gold value.

58 Ibid.

59 Ibid.
of the dollar, and the fall in the gold value of the dollar would amount to increasing the supply of money.

To substantiate his thesis, Warren pointed to the changes in prices from February to November, 1933. As indicated in Table 1, after the gold standard had been suspended, internally on March 6, and externally on April 20, the price of gold had risen 60 per cent; prices paid to farmers for food products between the months of February and November had risen 47 per cent; retail prices for some food products had risen 16 per cent; prices of some thirty basic commodities had risen 41 per cent; the Bureau of Labor index had risen 23 per cent, and the Fisher's index had risen 30 per cent.

**TABLE 1**

**PER CENT ADVANCE IN PRICES, FEBRUARY TO NOVEMBER, 1933**

<table>
<thead>
<tr>
<th>Month</th>
<th>Gold: Per Cent</th>
<th>25 Industrial Stocks</th>
<th>Saurebeck-Statist Index of Wholesale Prices for U. S.</th>
<th>30 Basic Commodities</th>
<th>Fisher's Index</th>
<th>U. S. Parex Labor Index</th>
<th>Prices Paid to Farmers for Food Retail Prices of Some Food for Pasting</th>
<th>Alum</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>0.2</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>April</td>
<td>5</td>
<td>41</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>May</td>
<td>10</td>
<td>61</td>
<td>17</td>
<td>22</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>June</td>
<td>25</td>
<td>77</td>
<td>23</td>
<td>32</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>July</td>
<td>40</td>
<td>89</td>
<td>30</td>
<td>47</td>
<td>35</td>
<td>35</td>
<td>35</td>
<td>35</td>
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<tr>
<td>August</td>
<td>37</td>
<td>76</td>
<td>26</td>
<td>47</td>
<td>27</td>
<td>27</td>
<td>27</td>
<td>27</td>
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<tr>
<td>September</td>
<td>40</td>
<td>87</td>
<td>30</td>
<td>45</td>
<td>29</td>
<td>29</td>
<td>29</td>
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<tr>
<td>October</td>
<td>40</td>
<td>54</td>
<td>35</td>
<td>42</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
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<tr>
<td>November</td>
<td>60</td>
<td>74</td>
<td>41</td>
<td>33</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

Although a full exposition of the Warren and Pearson "commodity dollar" theory is found in their book, Prices, (portions of which have already been discussed), it was published almost a year before their theory became policy. In 1925, however, they brought out a revised edition under the title of Gold and Prices.\textsuperscript{60} This new work sought to substantiate the Warren-Pearson Price Theory by a statistical analysis in Part One and by historical narrative in Part Two.\textsuperscript{61} The importance of considering this book, although it was written after the authors' theory became an economic reality, is realized when one sees that the differing methodology used in both sections of the book results in conclusions which do not harmonize. Therefore, one perceives a theory resting on contradictory evidence. The book is also important because it shows the economic reflections of the two men who, perhaps, exerted more influence on the formation of monetary policy in the early Roosevelt administration than anyone else.

Part One of the Warren-Pearson study shows the pre-war experience of England and the United States for a period of seventy-five years and is based upon the statistical method of research, while Part Two, although concerning itself with the same countries during the post-war period, shows the relationship between gold and prices with an historical narrative. As one is able to see, the methods of research for both portions of the text are quite different, and the results obtained by the two methods do not harmonize.


\textsuperscript{61}For a detailed and critical analysis of this theory see Charles O. Hardy, \textit{op. cit.}
Part One is statistical, while the movements of prices are compared with the events which are supposed to explain them, little effort is used to work out or develop the reasons for the relationships found. Theoretical reasoning is not used to elucidate "why" and "how" a certain event followed the course that it did.

In Part Two, the reader is confronted with an historical narrative accompanied by categorical statements as to the causal relationships between gold and prices. No attempt is made, on the part of the authors, to support historical generalizations with statistical correlations.

When reading the work of Warren and Pearson, one is able to perceive that the monetary theory supported by the post-war period discussion is not that suggested by the pre-war statistics. The statistics in Part One suggest that price movements are to be explained by measurable changes in the supply of gold as related to changes in the level of production. For example, a rise in prices resulted when the growth rate of the gold supply was greater than the growth of production; conversely, prices fell in a reverse situation. In Part Two, the post-war analysis explains price movements in terms of unmeasurable changes in the demand for gold; the chief conclusion being that the wartime and post-war failure of prices to follow the changes in gold supply resulted from abrupt changes in the monetary demand for gold. As the authors saw it:

The low value of gold and the resulting high prices from 1916 to 1923 were due to low demands for gold for monetary uses. The gold panic of 1929 and the collapse
of the price structure were due to a sudden world-wide return to the demand for gold.\footnote{62}

Although the theory gained acceptance with Roosevelt and some of his advisors, it came under heavy attack from responsible members of the community of professional economists. Under the auspices of the Brookings Institution, Charles C. Hardy, a leading research economist, had the following to say regarding the evidence of Warren and Pearson on the monetary demand for gold:

There occurred in 1929 no such sudden world-wide return of the demand for gold as the authors [Warren and Pearson] suppose. The return to the gold standard had been going on steadily since 1923 and, with the exception of France, the countries which went back to the gold standard had completed the process of rebuilding their resources before 1929.\footnote{62}

Hardy also challenged the argument advanced for the "commodity dollar" because of the gold shortage.

As for price declines of 1931-33, gold shortage is one of the least plausible of the many reasons which have been advanced. A shortage of gold, if it is to have any price significance, must express itself in a shortage of commercial or central bank reserves. But throughout the later stages of the depression, reserves have been superabundant, and especially so in the U.S.\footnote{64}

Although economists of high repute sought measures other than currency manipulation to promote recovery (James Harvey Rogers, for example, professor of economics at Yale University regarded public works as the best remedy for the depression and falling prices),

\footnote{62}Pearson and Warren, Gold and Prices, p. 106.


\footnote{64}Hardy, op. cit., p. 26.
administration circles were increasingly fascinated by the charts and graphs of Warren and Pearson. Roosevelt, who had known Warren from his New York days, appeared mesmerized by the charts and graphs during his meetings with the two professors from Cornell. The "Warren spell" seemed to take hold, for on October 22, 1933, theory became policy when President Roosevelt gave his fourth fireside chat to the nation. He announced that the Reconstruction Finance Corporation would buy newly mined domestic gold at prices set by the Secretary of the Treasury and himself. But, whenever necessary to manipulate the level of prices in conformity with the theory, gold would also be bought or sold in the world market. When the price level was restored, the President declared:

We shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generation. This objective must be realized to attain the permanent welfare and security of every class of our people.

He concluded:

By aim in taking this step is to establish and maintain continuous control. This is a policy and not an expedient. It is not to be used merely to offset a temporary fall in prices. We are thus continuing to move towards a managed currency.

The United States was now committed to one of the most controversial monetary policies in modern history. The Roosevelt administration had accepted the Warren idea that if one changed the price of

65Schlesinger, II, 235.


67Ibid.
gold, commodity prices would vary proportionately. A policy had thus been launched that one might be able to accept in an economy where gold was the circulating medium, but very unlikely in any other economic system. The "commodity dollar" or "managed currency" theory adopted in October, 1933, contained many limitations and fallacies. One, the price index number, which served as the keystone in the Warren-Pearson theory was of limited validity (as are all such index numbers) because it did not represent all the prices relating to commodities, wages, rents, and services. Secondly, the "commodity dollar" gave no real stability to prices; not a single price making up the average followed a steady course after October, 1933. For example, textile products fluctuated between 115 and 180; chemicals and drugs between 89 and 91; foods between 94 and 103, and leather products between 125 and 134, while the general price level for all commodities fluctuated between 96 and 100. Third, the value of money depends partly on the demand for money and partly on psychological factors, such as an atmosphere of confidence in money itself. But the Warren-Pearson policy was solely concerned with managing the supply of money according to the "quantity theory." Fourth, the "commodity dollar" had no adequate standard of value. It sought to make the average of prices determine the value of the dollar when the value of the dollar is the average of prices. Therefore, under the Warren-Pearson dollar, we are confronted with the following question: Can a dollar determine itself?

68Pearson and Warren, Gold and Prices, p. 22.
Two leading economic opponents of the "commodity dollar" theory at this time were Leonard L. Watkins, research economist for the Brookings Institution, and Julius S. Tucker, chief economic analyst for the U. S. Treasury Department. Watkins declared that three basic questions were raised by the Warren thesis: (1) Has the decline of the price level been primarily due to the world shortage of gold? (2) Should restoration of the pre-depression price level be given primary emphasis in recovery efforts? (3) How effective is the new policy likely to be in restoring this level?69

In response to the first question, Watkins reviewed Warren's explanation for the decline of prices since 1929 as "highly deficient and exaggerated." It placed too great an emphasis on pre-war rates of gold stock growth in relation to the production of commodities without taking sufficient account of post-war changes in industrial and monetary techniques. It failed to consider sufficiently economic introductions in the use of gold through central banking and other devices since the war. Watkins felt that the abuses of credit and the maldistribution of gold were much more significant than the alleged gold shortage in precipitating the collapse.70

Turning to his second question, the primacy of price increases, Watkins felt that it was valid only if the rise in prices was accompanied by increased production and employment and improvement in industry. He argued:

69Watkins, loc. cit.

70The maldistribution of gold was due primarily to war debts, private lending, tariffs of some central banks in checking credit expansion, and the terms under which the gold standard was restored after the war in many countries. Ibid., 133.
High prices which are not grounded on production, employment, and purchasing power cannot hold unless they are continuously pumped by false expectations. The 1926 price level, assuming that it could be restored immediately and directly by monetary manipulation, is not the panacea. It is the elimination of price maladjustments and expanding production and employment, which naturally gives rise to an advancing price level, which is desired, and it should not be forgotten that it is this volume of production and employment even more than rising prices (except in the case of farmers) which will determine doctors' capacity to pay and entrepreneurs ability to make profits. ... In my view, it would be preferable to forget the 1926 price level for a while, cease to woo it through monetary policy, and proceed on the assumption that the price level will rise in the natural course of trade recovery.71

Concluding with question three, the likely effectiveness in restoring price levels, Watkins was quite dubious. Even if an increase in the price of gold had occurred, there were other reasons for expecting price advances during the ensuing months because a rise was already taking place some time before the gold standard was abandoned and before the government launched its policy of advancing the price of gold. He saw other factors influencing price rises and felt no one could say what proportion should be credited to the gold policy, for the threat of inflation was active throughout much of that period.

Simply to select thirty basic commodities within a world market was scarcely proof for the validity of a theory, said Watkins. Even the Bureau of Labor Index of wholesale prices - itself biased by including international commodities - had risen only 17 to 20 per cent since the old parity of the dollar was abandoned, and relatively little of that had occurred since October 23, when the policy of raising gold prices was inaugurated. Watkins concluded his argument as follows:

71Ibid., 131-32.
Since the gold price has been raised in the neighborhood of 60 per cent it appears that we might expect a comparable rise of average prices or at least continual movements toward that average without further action by the government according to the theory of Professor Warren.72

Accordingly, if the gold theory was correct, it should not be necessary to repeat the process continually or to involve other processes.

Darius S. Tucker, writing in the Journal of Political Economy, also attacked and criticized Warren's contention that annual gold production must equal 5.6 per cent of the monetary stock to prevent falling commodity prices.73 During the years when the United States was actually on the gold standard, from 1834 to 1933, Tucker noted that there were fifty-one years in which gold production was less than 5.6 per cent of the gold stock at the end of the preceding year. In twenty-three of these years prices rose, in two they remained unchanged, and in the remaining years they fell. Such figures provided, at best, a shaky foundation for Warren's theory as they indicated that only a chance relationship exists between gold production and prices. If one examined prices for the second year following those years in which gold production was less than 5.6 per cent of the gold stock, one could find that in twenty-one of these years prices rose, in four they remained unchanged, and in twenty-four they fell.74 According to these statistics, Warren's "commodity dollar" theory would find support in less than one-half of the cases.

72Ibid., 135.
73Tucker, loc. cit.
74Ibid., 530.
Tucker attributed the short, sharp upswings and downswings that characterize booms and depressions as having little or nothing to do with either the supply or the price of gold, but rather with the excessive expansion and contraction of credit, especially bank credit.

The objective of a good currency and credit system should be to permit prices of commodities to decline step by step with technological advances in production efficiency, thereby permitting real wages to rise, while avoiding the interruptions of booms and depressions.75

Tucker believed that the permanent assurance of a reasonable degree of price stability required the following ingredients: (1) a banking system that would not permit excessive speculation, (2) a balanced national budget, (3) permanent peace. Without these ingredients, no monetary system could work well for long periods. With them, he concluded, the old fashioned gold standard would work as well as any other system that had been presaged and much better than most.76

Whatever the theoretical shortcomings and historical inaccuracies of the Warren theory, they did not deter Roosevelt from adopting the theory. This was evident in his fireside chat of October 22. Three days later, the Reconstruction Finance Corporation began buying newly mined domestic gold at the Treasury-set price of $31.36 an ounce or thirty-seven cents above the equivalent price of gold on the London open market that day. The immediate impact of the RFC action on the price of gold on the American and London markets is shown in Table 2.

75Ibid., 320.

76Ibid.
### Table 2

**OFFICIAL PRICE OF GOLD IN THE U.S. COMPARED WITH OPEN MARKET LONDON PRICE FROM October 23, to November 3, 1933**

<table>
<thead>
<tr>
<th>Date</th>
<th>U.S.</th>
<th>London</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 23</td>
<td>$20.10</td>
<td>$20.10</td>
</tr>
<tr>
<td>Oct. 24</td>
<td>$20.50</td>
<td>$20.50</td>
</tr>
<tr>
<td>Oct. 25</td>
<td>$20.80</td>
<td>$20.80</td>
</tr>
<tr>
<td>Oct. 26</td>
<td>$21.20</td>
<td>$21.20</td>
</tr>
<tr>
<td>Oct. 27</td>
<td>$21.50</td>
<td>$21.50</td>
</tr>
<tr>
<td>Oct. 28</td>
<td>$21.80</td>
<td>$21.80</td>
</tr>
<tr>
<td>Oct. 29</td>
<td>$22.10</td>
<td>$22.10</td>
</tr>
<tr>
<td>Oct. 30</td>
<td>$22.40</td>
<td>$22.40</td>
</tr>
<tr>
<td>Nov. 1</td>
<td>$22.70</td>
<td>$22.70</td>
</tr>
<tr>
<td>Nov. 2</td>
<td>$23.00</td>
<td>$23.00</td>
</tr>
<tr>
<td>Nov. 3</td>
<td>$23.50</td>
<td>$23.50</td>
</tr>
</tbody>
</table>

*Price announced by the Treasury for purchase of newly mined gold for export.

*Beginning of domestic gold-buying policy by the RFC.

≈Beginning of actual purchase of gold abroad.


Unfortunately, the higher RFC price did not have the intended effect, for the impact of the gold purchase policy on commodity prices was disappointing, and the world price of gold lagged behind the RFC price. After a moderate increase, the world price of gold had even declined sixty-one cents by October 23. Commodity prices, which were supposed to increase in direct proportion to the increase in the price
of gold, showed a reluctance to conform with theory. Although there had been a modest rise in wholesale commodity prices and a depreciation in the gold value of the dollar in anticipation of the new policy. Once the RFC gold purchases were begun, wholesale prices, as indicated in Table 3, pursued an erratic course. Although the price of gold had increased 1.44 per cent by October 20, the wholesale price index actually declined .16 per cent. Obviously the new plan fell short of expectations.

TABLE 3

GOLD VALUE OF THE DOLLAR COMPARED WITH WHOLESALE COMMODITY PRICES FROM OCTOBER 20, TO NOVEMBER 3, 1932
(GOLD VALUES IN CENTS)

<table>
<thead>
<tr>
<th>In Gold Currencies*</th>
<th>In London Gold Market</th>
<th>RFC</th>
<th>Moody's Wholesale Price Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 20</td>
<td>71.4</td>
<td>70.6</td>
<td>+71.0</td>
</tr>
<tr>
<td>Oct. 21</td>
<td>70.3</td>
<td>71.1</td>
<td>+71.2</td>
</tr>
<tr>
<td>Oct. 22</td>
<td>69.8</td>
<td>69.2</td>
<td>+69.4</td>
</tr>
<tr>
<td>Oct. 23</td>
<td>68.7</td>
<td>68.5</td>
<td>+68.2</td>
</tr>
<tr>
<td>Oct. 24</td>
<td>68.1</td>
<td>67.7</td>
<td>+67.2</td>
</tr>
<tr>
<td>Oct. 25</td>
<td>66.8</td>
<td>66.2</td>
<td>+66.4</td>
</tr>
<tr>
<td>Oct. 26</td>
<td>66.4</td>
<td>65.8</td>
<td>+65.4</td>
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<tr>
<td>Oct. 27</td>
<td>67.4</td>
<td>66.2</td>
<td>+66.2</td>
</tr>
<tr>
<td>Oct. 28</td>
<td>66.0</td>
<td>65.1</td>
<td>+64.9</td>
</tr>
<tr>
<td>Oct. 29</td>
<td>65.4</td>
<td>63.9</td>
<td>+61.7</td>
</tr>
<tr>
<td>Oct. 30</td>
<td>65.0</td>
<td>63.0</td>
<td>+61.0</td>
</tr>
<tr>
<td>Oct. 31</td>
<td>65.0</td>
<td>63.0</td>
<td>+61.0</td>
</tr>
<tr>
<td>Nov. 1</td>
<td>64.9</td>
<td>63.5</td>
<td>+60.9</td>
</tr>
<tr>
<td>Nov. 2</td>
<td>64.2</td>
<td>63.2</td>
<td>+60.8</td>
</tr>
<tr>
<td>Nov. 3</td>
<td>64.2</td>
<td>63.2</td>
<td>+60.8</td>
</tr>
</tbody>
</table>

*Based on average closing quotations at New York of French and Swiss francs, Dutch guilders and Belgian belgas.

+Based on price of gold announced by the Treasury for purchase of newly mined gold for export.

8D. W. Ellsworth, "President Roosevelt's Gold Policy," Current History, XXXIX (December, 1933), 335.
Seeing that his new policy was not going to take hold, Roosevelt called a conference at the White House on Sunday, October 20, to consider new steps. Among those present were George Warren, James Rogers, Yale economist and a strong advocate of public works programs, Governor Eugene Black of the Federal Reserve Board, Chairman Jesse Jones of the Reconstruction Finance Corporation, and Under-Secretary of the Treasury Dean Acheson. Roosevelt and Warren, at this point, felt that a broadening of the purchase policy to include both the world and the domestic markets would have the desired effect on commodity prices. Accepting this premise the gold purchase program was extended on October 30, when the RFC began to purchase newly-mined gold on the world market at $31.96. By November 3, the gold value of the dollar had depreciated to 64.2 per cent of its pre-Warren policy value, and disparity between the RFC gold price and the world gold price was only thirty-five cents, compared with a disparity of $1.14 on October 20. But the Wholesale Price Index continued to decline, falling from 125.2 on October 30, to 124.2 on November 3. Warren's conviction that an increase in the price of gold would result in a directly proportional increase in commodity prices found little support in the brute facts of economic life.

Statistical evidence appears to support the conclusion that the Warren policy failed to achieve its objectives. By December, commodity prices as a whole had not responded significantly to the use in the price of gold. Although the RFC gold price was increased to $34.11.

77Donald W. Hillsworth, "President Roosevelt's Gold Policy," Current History, XXXIX (December, 1933), 331. Hillsworth obtains this figure by dividing the old mint price of $20.97 by the London market price of $32.82.
on December 1, and further raised to $31.06 on December 10, the Bureau of Labor Statistics index of Wholesale Commodity Prices showed that the index remained at 70.8 (1923-1925) in December, whereas it had been 71.1 in November and 71.2 in October.78 The index number of the BLS Total Retail Cost of All Food also showed the price-manipulation scheme to be an apparent failure. On October 10, the index stood at 107.3; October 24, it was 106.5; November 7, it increased to 108.7; November 31, it increased again to 106.3; December 5, it dropped to 105.5; and by the end of December it was 103.9.79

The feeling began to take hold in the White House that the gold-purchase experiment should not be pursued further. Official discussions increasingly concerned themselves with the economic and legal problems of devaluation and stabilization.80

79Ibid., 1525.
80Schlesinger, II, 246.
CHAPTER III
DE FACTO STABILIZATION

By the end of 1933, discussions of monetary policy had assumed the proportions of a national debate, "the most intense since the Bryan campaign of '28." Increasingly, it assumed the character of a clash between Wall Street and Washington. Roosevelt, himself, became convinced that the Republicans and the bankers were leading an organized drive to return the country to the gold standard. He regarded the slowdown on the extension of credit to business by the banks as a deliberate effort on the part of the banks to recapture control of the nation's monetary policy. To the public interested in monetary questions, there was uncertainty as to the course the President would now pursue relative to gold and the dollar. Monetary reform leaders and their supporters increasingly demanded that monetary gold be vested in the U. S. Treasury rather than in the privately-owned Federal Reserve System.

Roosevelt's response came quickly. On December 23, Secretary of the Treasury, Henry Morgenthau, Jr., issued a proclamation calling all gold into the Treasury. On January 15, 1934, the Federal Reserve Bank of New York, acting as fiscal agent for the Treasury, began exchanging newly-mined domestic gold for the mint.

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31Ibid., p. 245.
32Ibid., pp. 245-17.
sent a special message to Congress outlining his new gold program. The course of progressive devaluation pursued since October 22, 1931, was now to be halted as the new policy abandoned devaluation in favor of de facto stabilization.\footnote{The term de facto is somewhat misleading when used in its present context. According to Webster de facto means the following: in fact; actual; realistic, or truth. The proponents of the Gold Reserve Act 1934, not wanting to completely lose the lifeline of public opinion by saying that they had severed our gold standard ties, stated that the new policy did, in fact, constitute the quality of a gold standard. They said that as long as the government or its agencies bought and sold gold on demand at approximately a fixed gold price – $20.67 per fine ounce – and that the government at any time maintained the gold content of its notes, the note circulation of the United States was maintained by using gold as a backer, the quality of the gold standard would be maintained. To others, the quality of the gold standard would be maintained. As we shall see later on in the text, this reasoning is a complete absurdity because the availability of gold for foreign payments was all that saved the currency of the United States from being on an out-and-out paper basis. The currency of the United States was really a managed currency system only loosely linked to gold. Thomas H. Gregory, The Gold Standard and Its Future (New York: E. P. Dutton and Co., Inc., 1933), p. 118.}

Outlining the new policy in his special message, the President said:

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.\footnote{S5C, S. Senate, Gold Reserve Act of 1934: Hearings Before the Committee on Banking and Currency. 73rd Cong., 2nd Sess., January 19-27, 1934, p. 6. Cited hereafter as U. S. Senate, Gold Reserve Act Hearings.}
Although Roosevelt already had the power, under the Thomas Amendment to reduce the gold content of the dollar as much as fifty per cent, he requested Congress to increase this figure to sixty per cent because he believed that the devaluation at that time should be at least sixty per cent of its former value. Congress was also requested to vest title of all U.S. gold in the hands of the government in order to accomplish three purposes: (1) legally complete the process of giving up gold as a circulating medium because, in the President's own words, "... the free circulation of gold coins is unnecessary, it leads to hoarding, and it weakens the national financial structure in time of emergency ...", (2) confine the transfer of gold bullion to settling international balances, (3) make clear the government ownership of any added dollar value of the country's gold stock that would result from any decrease in the gold content of the dollar.26

He further requested that the Treasury, in addition to the power of buying and selling gold, be given the power to deal in foreign exchanges and that a stabilization fund of $2,000,000,000 be established from the profits derived by the dollar devaluation.

Justifying his actions, Roosevelt concluded:

"Permit me once more to stress two principles. Our national currency must be maintained as a sound currency which, though 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..."

26Ibid.
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. 87

The President's new program was quickly implemented by Congress in the form of the Gold Reserve bill on January 16. Two days later it was reported to the House from the Committee on Coinage, Weights, and Measures. Under administration pressure for speedy action, the House passed the measure on the 20th by a vote of 360 to 40, only two days after it had been introduced and after only a single day of debate. 88

The House bill reached the Senate Committee on January 22, where committee members expressed their reservations in the form of four amendments before giving the bill a favorable report on January 25. The amendments were all concerned with the stabilization fund. The first limited the operations of the fund to purely foreign exchange transactions. The second provided for a Board of Control consisting of the Secretary of the Treasury, the Chairman of the Federal Reserve Board, and three of its members for the purpose of administering the fund. The third limited the life of the fund to two years. The last called for public reports as to its operations. These amendments were designed to achieve certain specific purposes: first of all, to prevent the operations of the fund from moving in on the Federal Reserve System, second, to avoid centralizing power in the hands of one man, and finally, to establish a measure of responsibility in the

87 Ibid., p. 6.

operation of the fund. On January 27, the Senate passed the amended bill by a vote of 66 to 23, and on the 28th the House concurred with the Senate's amendments.\textsuperscript{28}

On January 30, 1934, at 3:50 P.M., the President signed the bill which, aside from the aforementioned amendments, was in substantially the same form as when it was introduced.\textsuperscript{29} The President's recommendations of January 15, had now become the law of the land. The power of money was now, in the words of the President, "the inherent right of government." The Executive, under the new act, was given power to define the gold content of the dollar at not over sixty per cent of its former weight. The Federal Reserve gold was to be nationalized by providing for its deposit in the Treasury in exchange for gold certificates; a stabilization fund of $2,000,000,000 was established from the devaluation profits for operations in the foreign exchange and government bond markets; gold coins were permanently withdrawn from circulation, and gold bars were to be made available only for payment of international trade balances.\textsuperscript{30}

The following day, January 31, the President issued a proclamation revaluing the gold dollar by reducing the gold content of the dollar to 50.00 per cent of its former content. The actual de facto weight of the dollar was fixed at 15-5/21 grains of gold 9/10 fine or 50.00 per cent of its former weight of 25-6/10 grains, thus raising the value of gold from $20.67 per fine ounce, to $35.00 per fine ounce.\textsuperscript{31}

\textsuperscript{28}\textit{Ibid.}, p. 70.

\textsuperscript{29}\textit{Ibid.}

\textsuperscript{30}For the full text of the Gold Reserve Act of 1934, see U. S. Senate, \textit{Gold Reserve Act Hearings}, pp. 282-283.

\textsuperscript{31}
It was also announced that the Secretary of the Treasury, with the
President's approval, would commence buying gold the next day
- February 1 - through the Federal Reserve Bank of New York at the rate
of $35.00 per fine ounce.

Roosevelt also declared that he reserved the right to make a
further change in the gold content of the dollar. The official state-
ment of the White House read as follows:

In his proclamation of today the President gives notice
that he reserves the right, by virtue of the authority vested
in him, to alter or modify the present proclamation as the
interest of the United States may seem to require. The
authority by later proclamations to accomplish other
revaluations of the dollar in terms of gold is contained in
the Gold Reserve Act signed on Tuesday.92

The form of gold bullion standard, established in January 1934,
could be described as an "administrative international gold bullion
standard, for it laid upon the Federal Reserve banks and the Treasury
no compulsion of law either to buy or sell gold."94 All that was
required to establish a temporary and effective gold parity between
the dollar and other gold standard currencies was for the Secretary
of the Treasury to buy or sell gold under the powers granted to him
or simply a Treasury regulation permitting the Federal Reserve banks
to import or export gold for the purposes of settling international
balances. There was nothing in the terms of the Gold Reserve Act
1934 that required gold, if bought or sold by the Secretary of the
Treasury, to be bought or sold at a price corresponding to the gold

94Brown, op. cit., p. 1203.
control of the dollar as desired, within the limits laid down by Congress, by presidential proclamation.95

With the devaluation of the American dollar in 1931, the dream of the "commodity dollar" theory had perished. Although the new policy of the Gold Reserve Act 1934 was still young, it was the result of the development of several steps taken since March, 1932, in which the government had gained the initiative, authority, and control of the nation's monetary policy. The government had gained the power to demand the physical possession of gold, it had prevented the export of gold, it had reduced the amount of gold in the dollar, and it had set the price of gold. As a result of Roosevelt's gold policies in 1933 and his reforms in banking legislation, the government now asserted control over the nation's monetary policy, and the financial capital of the United States had shifted from Wall Street to Washington.

95 Ibid.
CHAPTER IV

EPILOGUE ON THE ABANDONMENT OF GOLD

All my life people have been coming to me to make over society and its institutions. Many of these plans have seemed to be good. Some of them have been excellent. All of them have one fatal defect. They have assumed that human nature would behave in a certain way. If it would behave in that way, almost any of these plans would work, but if human nature would behave in that way, not any of the plans would be necessary, for in that case society and its institutions would naturally reform themselves to perfection.96

Elihu Root

A significant number of economists of a certain persuasion have agreed that three essentials must prevail for money to attain a position of ne plus ultra.97 The first essential of what is generally referred to as sound money is that it have an objective value of its own. Money, according to this particular school, should not be arbitrarily controlled or subject to manipulation, but rather subject to the broad and elastic demand that arises out of the production and exchange of goods and services. Second, money should be based on some standard material having a value which varies as little as possible so it can serve as an effective standard of value. Third, money should have a stable value to store up value and serve as a basis for deferred payments. Stated simply, a good monetary system is one bearing the proper relationship to the production and exchange of goods.


97Ibid., pp. 33-34. Also see Kemmerer, op. cit., pp. 131-13.
and services. This means that currency credit must "arise out of actual or anticipated production and exchange activities which will liquidate it, currency credit automatically when it matures;" therefore the currency must be based upon a definite standard unit of stable standard material.93 Traditionally, gold has been chosen as the standard of a sound monetary system because it possesses certain characteristics. It is universally desired in the arts and crafts; it is convenient in that its value is high but not too high; and it has a stable value because its annual production is a small percentage of the world's total supply.

In 1934, however, the political, economic, and social palliatives giving rise to the Gold Reserve Act provided for a monetary system passing none of the tests of a true gold standard currency. Barriers and restrictions were placed on the influence of gold in the monetary supply. Monetary gold stock was not to be the ultimate limiting factor in the total currency supply; gold was not to provide a final check on sudden and arbitrary expansion in the primary currency supply at the hand of monetary authorities; and gold was not to serve as the practical link binding domestic and world monetary and financial developments. The new monetary system provided for no gold coinage, no convertibility on demand, and no unrestricted export of gold. The only thing that saved the monetary system of the United States from being on a paper basis was the availability of gold for foreign payments. The authors of the new policy termed it a "modified gold standard," but it was really a managed currency system only loosely

93Bell and Spahr, op. cit., p. 31.
linked to gold. The place and importance of gold had changed. It had only a nominal position in the new monetary system.

The framework of America's newly managed currency system developed from chaotic economic conditions and was brought about by the inflationist reactions to the decline in production, employment, prices, income, and the circulation of money that had characterized the economy since 1929. Accompanying these reactions was a drastic liquidation of debt bringing a severe contraction in the total domestic monetary supply, particularly in credit or debt money and deposit currency furnished by commercial banks. Confidence in the deposit currency issues of private commercial banks was eventually destroyed, and the disorganization and collapse of the monetary and banking mechanism became a reality.

To the average individual money was scarce for he was accustomed to judging economic status in terms of his money income and the outgo of his money savings. Now, because of his difficulty in acquiring money for commodities, services, business, family maintenance, savings, and debt payments, the feeling began to prevail that the supply of money was being dried up. Everyone knew "who" and "what" was responsible for the supply of money: banks and the gold standard; therefore, depressing conditions were blamed on them. The public felt that there was no paucity of evidence. One look at the large number of bank failures showed that many of them were incompetently managed. And with all the talk of the scarcity of gold, substantiated by the domestic and international scramble for the yellow metal, the gold standard was looked upon as an unsatisfactory standard for money.
The frontal attacks on the gold standard by the advocates of a managed currency system during the ten-month period from March, 1930, to January, 1931, centered on two arguments. First, the gold supply was inadequate to maintain the price level. The fallacy of this argument has already been discussed in some detail. Secondly, the public was led to believe by the inflationists that the gold standard had broken down and that because of such a standard, the United States had suffered from depressions and many economic troubles; therefore, it was evil. Throughout history, people seeking the democratic way of life have been confronted with problems and troubles, but is democracy necessarily evil? Michael A. Heilperin, professor of international economics at the Graduate Institute of International Studies, University of Geneva, and a consulting economist for Fortune, draws the following analogy in quoting a remark Winston Churchill once made about democracy: "It has been said that democracy is the worst form of government—except all those other forms that have been tried from time to time."

Applying the Churchill quote to the gold standard, "it might be said that the gold standard is the worst form of a monetary system—except all other forms."

As the depression grew more intense, recovery by means of monetary manipulation became more attractive and the seemingly logical argument which supported this belief ran as follows: given a larger supply of

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88Supra, chap. II, pp. 45-47.


money, more would be available for everyone, and with a larger available amount in everyone's hands for spending, price and trade recovery seemed certain. If this supply of money was freed from gold and its changes, then recurring depressions might be avoided. However, there were some dissident voices. A well-known economist from New York University had this to say:

In a period of business recession and depression, the currency supply — both deposit and money — is a result, not a cause, of business conditions. In other words, it is a thermometer of business unless the currency is inflated. The gold supply has no causal relationship to prices except when gold reserves are reaching the legal limit or are exhausted. In 1929 we had a huge surplus of gold reserves, in 1931, our gold supply was the greatest in our history prior to devaluation; and when the gold unit was devaluated on January 31, 1934, we had a gold supply not far below that held in 1931. The government confused symptoms with causes, and changed the scale on the business thermometer — money — on the assumption that it would change business conditions.

The early March days of 1933 marked the beginning departure from the monetary system of the past. By October 22, a further departure was announced when F.D.R. spoke of the continual establishment of a currency controlled and managed by the government. He emphasized that this was not an expedient but a policy. Essentially his case was that the thing to be managed was not the currency supply, but the level and structure of commodity prices. Manipulation of the currency supply was the means to be employed in achieving this larger national aim.

The average level of commodity prices aspired for were those comparable to the 1926 level because it was felt that this level would permit prompt liquidation of debts and effect a better balance between

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farm and industrial purchasing power. This goal had a theoretical and statistical foundation in Warren's monetary theory which stated that there was a close and direct relationship between commodity price levels and the price of gold in the dollar over both the short and the long run. In other words, it was felt that any country could have any price level it desired by simply varying the gold weight or worth of its currency unit.

Arthur Schlesinger, Jr. writes of the capriciousness with which the policy of devaluation of the gold dollar was carried out in an attempt to return to the 1926 price level:

Starting on October 25, Henry Morgenthau and Jesse Jones met in the President's bedroom every morning to set the price of gold. Jones was there as head of the RFC, which did the buying; Morgenthau, because of his recent experience in helping maintain wheat prices through a government purchase program. . . . While Roosevelt ate his eggs and drank his coffee, the group discussed what the day's price was to be. . . . One day Morgenthau came in, more worried than usual, and suggested an increase from 19 to 22 cents. Roosevelt took one look at Morgenthau's anxious face and proposed 21 cents. "It's a lucky number," he said with a laugh, "because it's three times seven."103

When the gold-buying decision was taken, the Undersecretary of the Treasury, Dean Acheson, resigned. He felt that any attempt to force an artificial use in the price level rested on economically unsound and indefensible grounds.104. According to one prominent school of economists, the only proper price level is one prevailing when a country reaches a state of economic equilibrium.105 After a nation emerges from a

103 Schlesinger, II, 241.

104 Ibid., pp. 240-42.

depression, it is not possible to know when or at what level the next equilibrium will be reached. However, the Roosevelt administration attempted to use 1926 as a base year and inseminate the economy with a monetary policy designed to raise the price level artificially.

In conclusion, the following question should be considered: Did the new monetary system of the United States, based upon a managed gold currency, achieve its objectives? The administration sought to promote a rise in domestic prices and revive business activity by expanding currency and credit. Both of these objectives were never fully realized. Until the outbreak of World War II, economic problems were still intense and broad. The Bureau of Labor Statistics Index of Wholesale Commodity Prices showed only a slight rise from January, 1934, when it was 78.3 (1926-100) to January, 1939, when it was 80.2. Prices, however, on the Retail Food Price Index actually declined. In January, 1934, the index stood at 104.5 (1913-100), but in March, 1939, it had fallen to 76.4. Unemployment still remained a serious problem. One author has noted:

The New Deal failed, if we judge by its ability to bring about a fully functioning economy; for at the end of six years of effort the nation still had 10,000,000 unemployed. The New Deal reduced unemployment, both absolutely and relatively, as compared with what it had been when the administration took office in the spring of 1933. But the 10,000,000 remained as a stubborn reproach.

Henry Morgenthau, Jr. writes in his diaries that "conditions were as

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difficult in 1938-'39 as they had been in 1933-'34. He states that by April and May of 1939 he did not know whether or not there would be any jobs left in private industry, for he feared not just the "unemployment, but all the evidence on business conditions." The Research Division of the Treasury reported to him in April, 1939, that the "woolen industry was in unusually bad shape, automobile production was off, steel production had turned down, and there had been another bad drop in the overall industrial production." 109

Although inflationary programs had been initiated for almost five years with seemingly insufficient results, many of the prominent economists tenaciously held to the idea of inflation as the necessary ingredient for economic recovery. On February 1, 1933, John Maynard Keynes wrote a letter to Roosevelt declaring that the key to recovery was more "spending" on a larger scale for public works and investments in capital goods guaranteed by the government. 110

Not all voices have called for inflation to combat the economic ills of society. Conservatives have argued that the pump-priming schemes and managed currency of the New Deal failed to promote the necessary economic recovery. Rather, the Roosevelt administration's policies were saved from utter ruin by the war endeavor. Broadus Mitchell, a noted economic historian, lends much credence to this argument with his comments on the achievements of the New Deal.

Despite all efforts . . . the nation did not emerge from the decade of depression until pulled out by war orders from

108 Slum, op. cit., p. 399.
109 Ibid., p. 402.
110 Ibid., p. 403.
abroad and the defense program at home. The rescue was
timely and sweet, and deserved to be made as sure as
possible. Whether the involvement of the United States
in the war through progressive departure from neutrality
was prompted partly by the reflection that other means
of extrication from economic trouble had disappointed,
obody can say. No proponent did say so. Instead,
advocates of "all-out aid to Britain," conveying of
Allied shipping, and lend-lease took high ground of
patriotism and protection of civilization. History may
see a causal connection, conscious or not, between
dull times and democracy vindicated.

In any event, the declaration of war in Europe
marked the end of the New Deal as a group of domestic
policies.111

Today, as a result of the policies of currency manipulation begun
during the New Deal, our currency is politically managed and political
in nature. The New Deal was a beginning step on which future adminis-
trations have built a stairway of government intervention in the
economy. In order to meet the expenses of domestic debt management
and budget deficits, the Federal government has had to resort to an
expansion of paper money and deposits and a policy of inflation.
Currency, however, which has been created in this manner, results in a
new and additional demand for goods and services, rather than directly
from the production of goods and services. The logical consequences of
such monetary practices are observable to all: rising prices, the
disrupting of normal economic relationships, declining purchasing
power, and the declining value of savings. Can an institution justify
such a powerful role? Are we not on a long road of panaceas giving
rise to more problems and more panaceas and leading to economic ruin?

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