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After the Gold Standard, 1931-1999

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Recommendation of United States President Franklin D. Roosevelt to Congress for legislation to improve the financial and monetary system. Roosevelt's request for additional powers, endorsed by the Congress barely two weeks later [next document], was the basis for the nationalization of gold held in the vaults of the Federal Reserve System.

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

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

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

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

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

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

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

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

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

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

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

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

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

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would not be in the public interest. I, therefore, recommend to the Congress that it fix the upper limit of permissible revaluation at 60 percent.

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

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

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

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

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

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

Governments can well, as they have in the past, employ silver as a basis for currency, and I look for a greatly increased use. I am, however, withholding any recommendation to the Congress looking to further extension of the monetary use

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of silver because I believe that we should gain more knowledge of the results of the London agreement and of other monetary measures.

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

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

Source: Roosevelt, 1938b, no. 8, pp. 40-45, esp. 40-44.