# Nomination of Eugene Meyer to Be a Member of the Federal Reserve Board

# HEARINGS

BEFORE A

## SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-FIRST CONGRESS

THIRD SESSION

ON

**NOMINATION OF EUGENE MEYER TO BE A MEMBER OF THE FEDERAL RESERVE BOARD**

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# NOMINATION OF EUGENE MEYER, TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

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**TUESDAY, JANUARY 27, 1931**

United States Senate,
Subcommittee of the Committee on
Banking and Currency,
*Washington, D. C.*

The subcommittee met at 10 o'clock a. m., in room 212, Senate Office Building, Senator Robert D. Carey presiding.

Present: Senators Carey (chairman), Goldsborough, Brookhart, Wagner, and Fletcher.

Senator Carey. The committee will please come to order. Senator Brookhart, do you want the witnesses sworn?

Senator Brookhart. Yes, sir.

Senator Carey. I will call Congressman McFadden.

## TESTIMONY OF HON. LOUIS T. McFADDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

(The witness was duly sworn by the chairman.)

Senator Carey. You may proceed, Mr. McFadden.

Representative McFadden. Mr. Chairman and gentlemen of the committee: The statement that I am about to make I am submitting from information that has come to me as a Member of Congress, and in connection with the work that I have had relating to matters that have come before the Banking and Currency Committee of the House. I am not speaking as chairman of the Committee on Banking and Currency, but I am referring to information and knowledge which have come to me in the position to which I have been assigned in the House. It covers a period of service of approximately 16 years, and for about 11 years as chairman of the Committee on Banking and Currency. During this period of time the committee have had many hearings and have been in a position to observe the operations of the Federal reserve system, the Federal farm loan system, and the intermediate credits act, because of the fact that the committee has the responsibility of passing on legislation pertaining to all of these systems; this also included the operation of the War Finance Corporation act

As I say, the committee have held hearings at various times and have made a study of Federal reserve operations, Federal farm loan operations, intermediate credits operations, and War Finance Corporation activities. Much of what I shall say to you this morning, as I have previously said, has been gained from a careful study of these problems which have been presented to the committee.

I would like to say at the outset that I have no personal animosity toward Mr. Eugene Meyer and never have had; but I have come into possession of information and have formed some ideas in connection with these observations of the activities of the various organizations with which he has been connected here, beginning with the War Finance Corporation and the Federal farm loan system and as these activities have affected the Federal reserve system.

Mr. Meyer was a member of the board of the War Finance Corporation during its early days; and later, when the War Finance Corporation activities began to wane, Mr. Meyer made a trip out through the agricultural sections of the South and Middle West with Sentor Calder, observing agricultural conditions, and worked up considerable sentiment in favor of the continuance of the War Finance Corporation. This activity on his part was largely responsible for the revival of the War Finance Corporation, and he was appointed manager-director.

It would appear from Mr. Meyer's activities from the time he came to Washington that he has been a seeker after public office. It was noticeable in the revival of the activities of the War Finance Corporation that he was looking toward leadership as the head of that institution. I do not care to go into more than one phase of the operations of the War Finance Corporation.

When again the activities of the War Finance Corporation began to decline it appeared that Mr. Meyer was seeking his next connection, and it so developed that this next connection was with the Federal farm loan system.

The first acts which synchronized with earlier activities in securing his connection with the War Finance Corporation were apparent in the appointment of a Mr. Williams, of Texas, on the Federal Farm Loan Board at the instance of Mr. Meyer. Mr. Williams was a former employee of the War Finance Corporation in the State of Texas. At the inception of Mr. Williams into the Federal farm loan system more or less turmoil was evident. Questions arose as to the administration of its operations. The other members of the board became exercised and alarmed with apparently no consultation back and forth except of an antagonistic nature, and it was readily understood among the people who knew of the operations there that Mr. Williams was Mr. Meyer's man and that there was to be brought about a reorganization of the Federal farm loan system.

Senator CAREY. Whom did Mr. Williams succeed in that position?

Representative McFADDEN. I do not recall whom he did succeed, but subsequently there was a reorganization of the Federal farm loan system; there were three resignations or dismissals from the Federal Farm Loan Board, and members of the War Finance Corporation were made members of the board of the Federal farm loan system. Mr. Meyer was made farm loan commissioner or head of the Federal farm loan system.

These men, who came in from the War Finance Corporation besides Mr. Williams, were Mr. Harrison, Mr. Cooksey and Mr. Meyer, a majority of the board. It was generally understood in and around Treasury circles that the old organization of the War Finance Corporation was taking over the operation of the Federal farm loan system. Again you had an indication of Mr. Meyer's desire to hold public office in the operation of the Federal farm loan system.

Almost immediately after the new board was organized, a good deal of publicity was caused through the failure of the Kansas City Joint Stock Land Bank and the Ohio Joint Stock Land Bank. I am not going into any angle of that, but it would be well, I think ,for your committee, in connection with these hearings, to clsoely analyze the operations that I am referring to here, with particular reference to the failures of some of these joint-stock land banks.

Now I want to pass from this to the situation in regard to the Federal reserve system, and to invite your attention to what appears to me to be a synchronization of effort to arrange a distribution of important financial positions in connection with these various bodies.

Senator BROOKHART. Before you go to that, would it be proper to inquire something of the intermediate credits acts?

Representative McFADDEN. The intermediate credits acts were passed and were operated by the Federal Farm Loan Board as a separate agency under the management for each of the 12 districts where the banks are located. I do not care to go into any of those operations at this time.

Senator FLETCHER. The membership of the Farm Loan Board was increased by two, making the membership of the board seven instead of five, as originally provided for in the act.

Representative McFADDEN. Yes; you are quite correct about that.

Senator FLETCHER. I think Mr. Williams went on at that time.

Senator WAGNER. Who increased it, Congress or Mr. Meyer?

Senator FLETCHER. Congress.

Senator WAGNER. I thought that perhaps Mr. Meyer had done all of these things.

Senator FLETCHER. I do not know whether Mr. Meyer recommended it nor not, but the board was increased from five to seven when the intermediate credits act was passed.

Representative McFADDEN. I think you will observe also that about that time, when this reorganization took place and the members of the Board of the War Finance Corporation were moved into the Federal farm loan system, there was a large increase in the operating and general expenses of the Federal farm loan system. I am not criticizing that. It may have been necessary, but these costs doubled.

Senator BROOKHART. Did not the business of the association decline?

Representative McFADDEN. I think it is fair to state that because of the situation that was created at that time the Federal farm loan system was tightening up all along the line and paying more attention to the collection of its obligations than to the extension of its facilities to the public. There are many statements that have been issued to indicate that. I have not made a detailed examination of it, but I think it is fair to say that at or about that time they began to tighten up on their loans and became more drastic on collections.

Senator BROOKHART. That is one thing that needs to be examined into by this committee in connection with this matter, is it not?

Representative McFADDEN. I would presume so; yes.

Now I want to place in the record at this time a copy of my letter to Hon. Peter Norbeck, chairman of the Senate Committee on Banking and Currency, under date of January 5, 1931; and in addition to that I want to place in the record, with the permission of the committee, a speech that I made in the House on December 20, which has a bearing on certain things to which I have referred to here before this committee in regard to the international relationship of our Federal reserve system with foreign countries and banks.

Senator CAREY. If there is no objection it will be admitted.

Representative McFADDEN. My letter to Hon. Peter Norbeck, under date of January 5, 1931, is as follows:

JANUARY 5, 1931.

Hon. PETER NORBECK,
*Chairman Committee on Banking and Currency,*
*United States Senate.*

DEAR SENATOR NORBECK: In connection with the confirmation of the pending nomination of Eugene Meyer, jr., to be a member and Governor of the Federal Reserve Board which was some days ago reported favorably by your committee and is now, I understand, by agreement to be voted on by the Senate on January 9:

Before this matter is finally passed upon, should not your committee and the other members of the Senate ascertain the circumstances leading up to this appointment and to the resignation of Roy A. Young as Governor of the Federal Reserve Board and Edmund Platt as Vice Governor of the Board?

At the time of the resignation of Governor Young, he was appointed Governor of the Federal Reserve Bank of Boston. Simultaneously with the resignation of Vice Governor Platt from the board, he was made vice president of the Marine Midland group of banks, new position created by this institution to fit the employment of Mr. Platt. I have been informed that the negotiations leading up to Mr. Platt's resignation and his appointment as vice president in charge of public relations of the Marine Midland group were largely conducted by Mr. Alfred A. Cook, a New York City lawyer, located at 20 Pine Street, who I am told is the brother-in-law of Eugene Meyer, jr., and Mr. George Blumenthal, who has long been a member of the international banking house of Lazard Freres & Co.

I have already pointed out Mr. Blumenthal's activities with the French Government and J. P. Morgan & Co. Mr. Cook, I understand, is also attorney for the New York Times. It is perhaps needless for me to explain that the New York Times is probably the strongest exponent in this country of the type of internationalism which is leading gradually to our involvement in international financial and political affairs through the Bank for International Settlements and its use of our Federal reserve system through J. P. Morgan & Co., who are and represent the American stockholders in this bank.

I should like to restate here the expressed official position of this Government as set forth in the statement of Henry L. Stimson, Secretary of State, under date of May 16, 1929, in regard to participation by officers of the Federal reserve system in the Bank for International Settlements. I quote:

"In respect to the statements which have appeared in the press in regard to the participation of any Federal reserve officials in the creation or management of the new proposed international bank, I wish to make clear the position of this Government:

"While we look with interest and sympathy upon the efforts being made by the committee of experts to suggest a solution and a settlement of the vexing question of German reparations, this Government does not desire to have any American official, directly or indirectly, participate in the collection of German reparations through the agency of this bank or otherwise. * * * It does not now wish to take any step which would indicate a reversal of that attitude and for that reason it will not permit any officials of the Federal reserve system either to themselves serve or to select American representatives as members of the proposed international bank."

Notwithstanding this definite prohibition, officers of the Federal reserve system and of the Federal Reserve Bank of New York are continuing conferences and apparently collaborating with the officers of the bank for International Settlements.

Under these circumstances, the Senate and the country are entitled to have the full facts.

The position of Governor of the Federal Reserve Board, as you know, at this time is one of the greatest positions of trust in the United States, and the procurement of an important position of trust like this should not be acquired in any doubtful manner.

If this appointment has been secured through such methods, the country is entitled to know it, and these facts, if established, are sufficient basis for the rejection of this nomination.

Do you not think the way to ascertain the truth is to call before your committee, prior to this confirmation, the following persons: Hon. Roy A. Young, Governor Federal Reserve Bank of Boston; Hon. Edmund Platt, vice president of the Marine Midland group of banks; Mr. George F. Rand, president of the Marine Midland group of banks, Buffalo, N. Y.; Mr. Alfred A. Cook, 20 Pine Street, New York; and Eugene Meyer, jr.?

In further substantiation of what I am saying, I am inclosing copy of an address which I delivered in the House of Representatives under date of December 16, 1930.

I should also like to make it clear to you that in the delivery of this speech and in the writing of this letter I am not assuming to lecture or direct your committee or the action of the United States Senate. I am thoroughly aware of the impropriety of such a course. What I am saying in this letter and what I have said in the inclosed speech is on my own responsibility as a Member of the House of Representatives. Because of the fact that I am so much concerned about the future welfare of the Federal reserve system on account of its effect on the people in the United States, I am forced to resort to the only method at my command to bring this to the attention of those who have the responsibility now before them of the confirmation of this appointment.

Respectfully yours,

L. T. McFadden.

The speech to which I referred is as follows:

Speech of Hon. Louis T. McFadden of Pennsylvania in the House of Representatives, December 16, 1930

Mr. McFadden. Mr. Chairman and ladies and gentlemen of the committee, this country is in the midst of a serious business, economic, and financial depression. Several times during the last session of Congress I took occasion to direct the attention of the House and of the country to the possible serious involvement of our Federal reserve system in not only international finance but in international politics.

I am now taking the time of the House to further direct the attention of this House to international finance, and I hope that the few remarks that I may make will be heard somewhat in the other end of the Capitol, because of the fact that before the Senate at this time are matters which tend to further involve the Federal reserve system in internationalism, praticularly as regards such financial activities.

The seriousness of this situation is perfectly apparent. You Members heard several of the things that I said during the closing days of the last session of Congress about the involvement of the Federal reserve system, or possible involvement of it, in the organization of the Bank for International Settlement. Those people who attempted to answer my remarks in regard to this attempted to minimize the importance of the operation of the Bank for International Settlement. Subsequent events, however, have confirmed everything that I said last spring as regards the magnitude of this important financial institution. We are now beginning to get the facts pertaining to the important part which this institution is to play with regard to international financial and political operations. I need only cite in this connection the recent visit to the Capitol and to the White House, to the Treasury, the Federal Reserve Board, and to the Department of State of the head of the Bank for International Settlement, Mr. Gates W. McGarrah.

I also call attention to a speech which that gentleman made in the city of New York only 10 days ago, in which he pointed out the important part which this institution is to play in the future in regard to world finances. He said it was the purpose to mobilize, and the reports indicate that mobilization of the world's gold is beginning. They propose to deal with international operations. He also told us in this New York speech of the important part which the Bank of International Settlement played in upholding the plan of the Finance Minister in Germany, Mr. Bruening, in the last session of the Reich. I want to point out to you just prior to that an important step that was taken by the same international banking group; that is, they financed and sold in this country $300,000,000, or a part of it, of the commercial reparation loan. You gentlemen, I am sure, will remember my criticism of that and my attack upon the legality and the unwisdom of the sale of these securities in this market as a possible involvement of our people in international affairs to an extent that they did not realize.

This morning I simply want to point out the facts that those bonds have declined from a value of 91¾ to a low of 68. The market on Saturday was 70, representing a loss to American investors in these particular securities of over $20,000,000. The particular reference which I make to this financing is that it was a private undertaking. The syndicate was headed by Lee Higginson & Co., which is really the back door of J. P. Morgan & Co., who financed an additional loan of $125,000,000. This is a new loan that was given Germany subsequently to the sale of the $100,000,000 commercialized reparations loan—that was not even advertised locally in this country, but taken by nearly the same group of banks that handled the first loan—but this time instead of the J. P. Morgan firm heading the syndicate it was headed by Lee Higginson & Co. This makes a total of apparently $225,000,000 given to Germany since the Young plan was adopted, and we do not now know how much more was granted by the Bank of International Settlements.

That last loan of $125,000,000 was made for the purpose of aiding Mr. Bruening in organizing the Reich, in order to put through his financial plan for the stabilization of Germany. Imagine, if you please, any financial house in Europe coming into this body and granting loans and bringing pressure to bear on the organization of the House of Representatives. Yet that is almost exactly what the Bank of International Settlements has done, and our banking houses here have been placing this tremendous financial power in the hands of the Bruening financial leader of the Reichstag.

In connection with what I have further to say here this morning, I want to point out to you the serious additional step that is about to be taken.

Mr. STRAFFORD. Will the gentlemen yield?

Mr. McFADDEN. I yield.

Mr. STAFFORD. Do I understand the gentlemen is criticizing American banking institutions for loaning money to the accredited representative of the German Government?

Mr. McFADDEN. No; I am not suggesting that. I am suggesting that American financiers who are international financiers——

Mr. STAFFORD. And properly so.

Mr. McFADDEN. Are using American money to help organize the Reichstag's financial operations.

Mr. STAFFORD. That was a governmental function—loaning money to the recognized representatives of the German Government. What is wrong with that?

Mr. McFADDEN. I am speaking of the possible involvement of our Federal reserve system in internationalism. I would like to point out further to the gentleman, and to the Members of the House, that that which I am referring to here is a possible further involvement in this situation. There is pending before the Senate at this time, having been reported favorably by the Senate Banking and Currency Committee, the nomination to be a member of the Federal Reserve Board, and its governor, the name of Mr. Eugene Meyer, jr. This appointment should not be confirmed by the United States Senate, and I want to make that just as positive as it is possible for me to make it. If you want to turn the Federal reserve system over to international financiers, place Mr. Meyer in that particular post at this time.

A careful analysis discloses the fact that Mr. Meyer has been very closely connected, during his whole financial career, with banking houses of international reputation. He has a very close connection with J. P. Morgan & Co., and as the head of the War Finance Corporation. and in carrying on its activities, those close relationships were actively disclosed. He is a Wall Street man. I want to point out just what has happened in order to make that nomination and appointment possible. Gov. Roy Young, from Minnesota, was the Governor of the Federal Reserve Board. His resignation was secured by appointing him as governor of the Federal Reserve Bank of Boston, and, because of that clause in the Federal reserve act which prohibits two members serving on the Federal Reserve Board from one Federal reserve district, Mr. Edmund Platt, the vice governor of the Federal Reserve Board, with eight years yet to go, was likewise removed by giving him a position with the Marine Midland Bank in New York. I understand that a new position of vice president was created, and two operations had to be performed in order to create a vacancy which would permit of the appointment of Mr. Meyer.

The Senate of the United States should not confirm his appointment without going into the details as to why these changes were made and why the appointment of Mr. Meyer was made necessary. He is recognized as an international financier; he is a Wall Street banker and closely affiliated with these international banking groups.

I want to point out in connection with that that at the present time we have a particularly pertinent and interesting situation as regards the mobilization of the world's gold. Over 60 per cent of the world's gold is now in France and in the United States, controlled by the Bank of France and the Federal Reserve System. I want you to understand that situation because of what I am going to say to you next. I want to point out the close relationship which exists between this proposed member of the Federal reserve system and the French at this time.

Mr. O'Connor of New York. Will the gentleman yield?

Mr. McFadden. Yes.

Mr. O'Connor of New York. I have seen many contradictory statements as to where the gold reserve is throughout the world. The last figures I saw were that there was aboug $4,000,000,000 here and about $2,000,000,000 in France, but that there was abut $4,000,000,000 or $5,000,000,000 distributed throughout the rest of the world. What are the gentleman's figures with respect to the gold reserve?

Mr. McFadden. Between 60 and 62 per cent is deposited in the United States and in France.

Mr. O'Connor of New York. What are the figures in dollars?

Mr. McFadden. Well, the total world's gold is something like $10,000,000,000, and 62 per cent would be something over $6,000,000,000.

Mr. O'Connor of New York. In both the United States and France, the gentleman means?

Mr. McFadden. Yes. The gold in the United States is principally under the control of the Federal reserve system and the gold in France is largely under the control of the Bank of France, and that has an important bearing on this whole situation.

I want to point out that Mr. Meyer is a brother-in-law of Mr. George Blumenthal, a member of the firm of J. P. Morgan & Co., who, I understand, represents the Rothschild interests, and that he is liaison officer between the French Government and J. P. Morgan & Co. That has a very important bearing on this particular situation.

I want to make it perfectly plain that in placing Mr. Meyer at the head of the Federal reserve system you are turning it over completely to this international financial group. I do not believe that the people of the United States want this thing to happen. This is an unpleasant duty for me to perform. But, ladies and gentlemen of the House, I am interested in our country and its institutions, as is every man, woman, and child in the United States.

The Federal reserve system controls the credit system not only of the United States to-day but is the dominating factor in finance throughout the whole world.

I could not let this opportunity pass without at least directing this to the attention of the House, and, I hope, the attention of the Senate, before they take this additional step.

There is no question that the Federal reserve system is playing with international financial operations through the Bank of International Settlements. Otherwise, why would Mr. McGarrah be here reporting to the President of the United States, the Treasury Department, the governor of the Federal Reserve Board, and the State Department? Why would he be making statements with regard to the operations of the Bank of International Settlements?

I am simply throwing out these thoughts to you to show how extensively we are becoming involved and how our financial system is becoming involved in the affairs of international finance.

At the opening of my remarks I pointed to the fact that we are in the midst of a terrific business and financial depression in the United States, and it is just at such times that deals of this character are put over.

Gentlemen, I do not want to be too pessimistic with regard to our financial situation, but the fact remains that this year practically 1,100 banks will have failed in the United States. It is a serious financial crisis, and I am hoping that before this session is over the committee over which I preside as chairman may have an opportunity to look into the causes of the failures of these particular banks. I may say to you that the analysis I have already made of the causes of the failure of some of these banks indicates clearly that these failures are not due entirely to agricultural depression in the country districts. An examination of the portfolios of these banks will disclose that in many instances the impairment in the capital of these banks is caused by the investments in their portfolios.

You are going to find that these large big-city financial institutions—that in the past few years have been floating and financing these various consolidated enterprises that we have been in a mad rush to put together, where practically every business throughout the country that has gained any standing or any basis of earnings has been merged or mobilized and financed in New York and elsewhere—have been emitting securities, after pulling out the cream of the values in securities, and unloading the remaining worthless securities not only on the banks but on innocent investors throughout the country; and in mentioning this I put at the top of the list the international banks who are financing these domestic operations and the large amount of foreign securities as a whole, many of which have depreciated in this country over 50 per cent. The failed banks are full of these worthless securities, and they have been sold to the banks and to the innocent investors in this country by banking houses of the type which I have just mentioned.

Mr. O'CONNOR of New York. Will the gentleman yield?

Mr. McFADDEN. I yield.

Mr. O'CONNOR of New York. Does not the gentleman also think that one of the underlying causes for the condition of some of the banks is that they have left the strictly banking business and have gone into the financing business with their side companies called finance, and so forth, companies?

Mr. McFADDEN. The gentleman is quite correct. That is one of the serious phases of this question. Banks have not been content to do a legitimate banking business, but they have organized affiliated companies under State laws that have permitted them to do those things which are prohibited directly under the law. There is no doubt but that the matter which the gentleman has referred to is responsible for a lot of things that have been going on and for a large part of the losses that have been sustained; in fact, they are responsible for a lot of the speculation which occurred last year, where affiliates of some of these large houses were the violators.

They have been the sources from which hundreds of millions of dollars' worth of these fancy securities have been unloaded on the innocent public. This resulted in the wide speculation of last year; in fact, the very thing that caused the crash of last October was the fact that early in the summer these reorganization and financing houses that had all of these reorganizations and financial operations in process became aware of the fact that pressure was on from the Federal Reserve to reduce credit lines and that an economic depression was imminent, and they all tried to get rid of their securities at one and the same time. What happened? It was just like the meeting of two locomotives. The excess amount of the issues of these new securities to which I have referred and the tightening of the credit of the financial system brought them together exactly as two locomotives come together, and there was nothing to prevent a crash.

Mr. BLACK. Will the gentleman yield?

Mr. McFADDEN. Yes.

Mr. BLACK. Does the gentleman's committee intend to do anything about all this?

Mr. McFADDEN. So far as the chairman is concerned, I will say the committee is going to take up very actively a study of this particular phase of the financial troubles that confront this country.

In connection with this letter to Chairman Norbeck——

Senator WAGNER. May I interrupt a moment?

Representative McFADDEN. You may.

Senator WAGNER. I want to ask whether or not the speech that you made was a discussion of the qualifications of Mr. Meyer for this office?

Representative McFADDEN. No; it was not, but it had to do with the international connection of the Federal reserve system referred to in this letter. It is part and parcel of this argument that I will present to this committee, and I thought it would serve the purpose and save time to insert it into the record.

Senator WAGNER. I do not want to be technical about this, Mr. Chairman, but I was hopeful that to some extent at least we would confine this inquiry to the qualifications of Mr. Meyer rather than have a discussion of the whole system. I do not think this committee should go into the whole Federal reserve system. Other subcommittees are doing that now.

Senator BROOKHART. I agree with that, but the question of Mr. Meyer's administration of these institutions is certainly material in determining his qualifications.

Senator WAGNER. That is why I asked the Congressman whether this was a criticism of Mr. Meyer in the administration of his offices.

Representative McFADDEN. No; it is not, but it shows what we are coming to in Federal reserve operations, which Mr. Meyer, if he is confirmed, will administer. I believe it is material to this particular subject.

Senator WAGNER. You mean as to whether it should be Mr. Meyer or somebody else?

Representative McFADDEN. Yes.

Senator WAGNER. You are going to connect that up, are you?

Representative McFADDEN. I think I have connected it up already. It is connected up at this time.

Because of the common reports, and because of the things that I have just stated to you about the various movements of Mr. Meyer since he came to Washington in connection with these positions which he has held, it is rather interesting to note the matters to which I have referred in this letter to Senator Norbeck, in which I have pointed out the fact that Gov. Roy A. Young, who came to Washington from Minneapolis as governor of the Federal Reserve Bank at Minneapolis, retired as governor of the Federal Reserve Board just at the particular time that Mr. Meyer was to be appointed.

I call your attention to and emphasize the fact of this vacancy at that time and also the resignation of the vice governor of the Federal Reserve Board, Mr. Edmund Platt, because there is a provision in the Federal reserve act that only one member of the Federal Reserve Board may be appointed from any one Federal reserve district. Mr. Platt was representing the same Federal reserve district in which Mr. Meyer has his official residence; and, of course, even with the resignation of Governor Young, it did not make a vacancy so that Mr. Meyer, if he were appointed, could be governor of the Federal Reserve Board. In fact, he was prohibited from being a member of the Federal Reserve Board because of the residence restriction in the law.

My attention was directed to the fact that Mr. Platt was appointed by President Coolidge a member of the Federal Reserve Board to succeed himself about two years ago for a term of 10 years. He had eight years yet to serve as a member of the Federal Reserve Board; and it is a well-known fact in Federal reserve circles—I do not care to have you feel that I am reporting rumors in this connection—that Mr. Meyer was after the job on the Federal Reserve Board.

I had personal knowledge of his ambitions in that respect several years ago. In a conversation with Mr. Meyer he expressed the desire to be governor of the Federal Reserve Board and to sell this board to the country, stating that it never had been properly sold to the country. And in connection with this whole matter these notices which appeared in the press at that time are of particular significance.

I want to call attention to a notice in the New York Times, under date of September 5, 1930, reading:

> Meyer to get post; Platt will resign. Selection of New Yorker for governor of Federal Reserve Board announced.

Then an item in connection with that says:

The law creating the Federal reserve system provides that no two members of the board shall be from the same reserve banking district.

Officials explained informally that Mr. Platt had been contemplating resigning from the Federal Reserve Board for a long time, with a view to accepting an important position with what they described as an organization having headquarters in New York, but which was not a New York organization. The understanding obtained was that only within the past few days Mr. Platt had decided to accept the position mentioned.

Platt on vacation. It was said at the Treasury that Vice Governor Platt was on vacation in Connecticut. The identity of the organization with which he is expected to become affiliated could not be ascertained.

Here is a clipping from the New York Times, under date of September 3, 1930. It is headed:

Hoover for Meyer on Reserve Board. Appointment of ex-war finance chief hinges on a legal point. Way likely to be cleared. Difficulty lies in fact that another New Yorker, Edmund Platt, is also a member.

It goes on to say:

Eugene Meyer, jr., of Mount Kisco, Westchester County, N. Y., will be appointed governor of the Federal Reserve Board if a legal difficulty offered by the fact that another New Yorker is a member of the board can be overcome.

While on the surface this legal difficulty appears to be insuperable, it is significant that the present vacancy will remain unfilled pending an effort on the part of the administration to clear the way for Mr. Meyer's appointment to this important position if it is possible to do so. What is known of the situation indicates that the ultimate appointment of Mr. Meyer appears to be assured.

Then under date of September 4, 1930, this item appears in the Washington Post:

Meyer will head Federal reserve. Hoover reported decided on selection of New Yorker.

Edmund Platt, vice chairman of the board, like Mr. Meyer, is from New York district. However, without disclosing what steps are to be taken to meet this legal restriction, Government authorities indicate that they believe a solution can be found.

It would be interesting to the committee to know what Government authorities are referred to in a statement like that. I have suggested that a plan was introduced here for the deliberate removal of Mr. Platt from the board. I do not believe that Mr. Platt voluntarily resigned from the Federal Reserve Board. I think this committee should ascertain just what the circumstances were that led up to that.

I know something of the pleasant affiliations that Mr. Platt had with the board from many conversations I had with him, and I know how highly he regarded his opporunity to serve the country on the board; he liked his job.

Then in the United States Daily of September 5, 1930, there appeared this item:

Mr. Meyer selected for Reserve Board. When Mr. Platt retires, according to the information which the Treasury had, Mr. Meyer will be given a recess appointment as a board member and will immediately be designated by the President as governor under the procedure regularly followed heretofore. The formal nomination to the board then will be forwarded to the Senate when Congress convenes again in December.

Then, under date of September 6, 1930, this additional statement appears in the New York Times, headed, "Names Meyer head of Reserve Board. President states resignation of Vice Governor Platt removes obstacle." The article says:

Following the announcement earlier in the week that the appointment would be made if certain legal obstacles could be overcome.

These were surmounted through the resignation of Edmund Platt of Poughkeepsie from membership on the Reserve Board, also announced to-day.

Mr. Meyer will succeed Roy A. Young, who retired from the governorship of the Federal Reserve Board to become governor of the Federal Reserve Bank at Boston.

Under the law creating the reserve system no two members of the board may be from the same reserve district. Shortly before President Hoover gave out the news of Mr. Meyer's appointment it was announced in Buffalo that Mr. Platt, who was vice governor of the Federal Reserve Board, would become a vice president of the Marine Midland Corporation of that city.

Under date of September 15, 1930, in the United States Daily, there is this heading, "Mr. Platt explains resignation in letter." The letter from Mr. Platt is as follows:

Dear Mr. President: In submitting my resignation as a member of the Federal Reserve Board effective September 15, and of the vice governorship which I have had the honor to hold under four Presidents, may I say that it is not easy to sever the pleasant relationships that have continued for more than 10 years. While it is true that the salary of members of the Reserve Board is not in purchasing power as much as was expected when the Sixty-third Congress, of which I was a Member, passed the Federal reserve act, and probably should be increased, there are compensations which to some of us have more than made up for the deficiency.

INTERESTING WORK

The participation in conferences and in important decisions on matters of credit policy, the study of banking and economic problems, of domestic and world-wide business conditions and of the policies of the central banks of other countries, involved in the board's work, have been to me most interesting and inspiring. Since my reappointment about two years ago by President Coolidge I have not given much consideration to propositions that involve resignation from the board; but comes now an offer to take some part in the development of a system of banking in which I have been greatly interested, a system which gives promise of solving some of our most serious banking problems.

I have long studied branch and group banking with special reference to preventing bank failures, believing that only by some extension of branches beyond city limits from strong institutions, or by some grouping together or consolidation of small banks in rural communities so as to form larger corporate entities, can anything substantial be done towards giving adequate and safe service to the smaller centers.

SECOND RESIGNATION

The offer of a vice presidency of the Marine-Midland Corporation, one of the largest and strongest of the recently formed group systems, appealed to me as an opportunity for useful service in the practical operation of branch and group banking, and I have accordingly accepted it, having received assurance that you are prepared to appoint my successor and that my resignation following so closely upon that of Governor Young will not cause you embarrassment.

The President's letter in reply is as follows:

My Dear Mr. Platt: I have received your letter of resignation in confirmation of information previously conveyed to me.

It is important to know what that previous information was, if it is possible for this committee to obtain it. Apparently this resignation of Mr. Platt's was a matter of discussion between Federal reserve authorities, perhaps the Treasury Department and the White House, and Mr. Meyer.

I have intimated in this letter to Senator Norbeck that in addition to the calling of Mr. Meyer and Mr. Platt before this committee, Governor Young of the Federal Reserve Bank of Boston might also be called. Governor Young is a very able banker, and is experienced in Federal reserve operations, coming from a section of the country which has indicated that representation on the Federal Reserve Board for a man like minded to him was important rather than a man who is interested in Wall Street finance and international financial and business operations.

In that connection I would like to point out also that Mr. Meyer, before he came to Washington, was a stock broker in the city of New York. His associations indicate that the type of business he did was confined largely to the business of brokerage. He was a very active man in the market. So far as I have been able to learn that is his only qualification to be tremed a banker, except the experience which he has gained since he came to Washington in the operations of the War Finance Corporation and the Federal farm loan system.

It is pertinent to know in that connection what some of these stock brokers engaged in New York do. I would make particular reference to some of Mr. Meyer's early operations in stocks in New York, because it has considerable bearing on his oprations as manager-director of the War Finance Corporation and as the farm loan commissioner. The policies carried out in previous operations indicate to me that they will be carried into the Fedderal reserve system.

I want to point out that his mind is more that of a stock broker than that of a banker. I am led to this conclusion because of the fact of his operations as a stock broker before he came to Washington and the operations incident to the purchase and sale of Government securities in the War Finance Corporation where he carried on what is well known in stock brokerage circles as maintaining a market.

In connection with the hearings which the subcommittee of my committee carried on we had ample opportunity to look into the operations of the War Finance Corporation's activities.

Senator Brookhart. Have those hearings ever been printed?

Representative McFadden. The particular hearings to which I am referring now have not been printed.

Senator Wagner. The Senate committee went into this whole question, as I recall, when Mr. Meyer's nomination was pending for a membership in the Farm Loan Board.

Senator Brookhart. It only made a very casual inquiry into it. As far as getting at the bottom of it is concerned, we never did.

Senator Wagner. Everybody was at liberty to ask any questions in connection with it. I am wondering what our function here is; whether we are going to rehash all these matters which both the committee and the Senate passed on before.

Senator Brookhart. There are some important phases of this that were not brought out that I want to bring out at this time. I do not think there is a lot of detail either when we get to it.

Senator Fletcher. The subcommittee in connection with the Farm Loan Board membership did not undertake to go into any great detail.

Senator Wagner. We did go into the operations of the War Finance Corporation at the time of the hearing.

Senator Fletcher. To a limited extent; we heard Mr. Meyer, who said its books had been audited and they were available.

Senator Wagner. Were not you and Senator Brookhart at liberty to ask any questions and call any witnesses as you desired?

Senator FLETCHER. No. I offered a resolution to investigate the administration and transactions of the War Finance Corporation—Senate Resolution 84—which was referred to the Committee on Banking and Currency and on December 20, 1927, the committee took it up. A statement was made by Mr. Meyer. The committee never acted on it; that was the extent of the investigation.

Representative McFADDEN. I say to the Senators that apparently what is being referred to here now is the inquiry into the supposed duplication of Government bonds. That is not the part of this particular hearing to which I am referring, and from my observation of the conduct of the hearings before the committee previously I do not believe that the matter I am referring to here has ever been before a committee of the Senate.

Senator BROOKHART. I am afraid it is new to me.

Senator FLETCHER. What the committee inquired about in questioning Mr. Meyer was the War Finance transactions, the purchase and sale of Government bonds by the War Finance Corporation, of which Mr. Meyer was the head, through Eugene Meyer's office in New York. We went into that to some extent. That examination, so-called investigation, appears in full in a document printed December 20, 1927, for the use of the committee. Mr. Meyer was doing business not as a broker, I believe, but as an investment banker. That is the term he used instead of broker; and as an investment banker his house in New York bought and sold, at his instance here, Government securities from time to time. That was the extent of our inquiry at that time shown by the document now in your hands.

Senator WAGNER. As I recall it, Senator Fletcher, that was gone into very thoroughly, including an audit which was presented, and everything that was established at that time was very creditable to Mr. Meyer.

Senator FLETCHER. Those hearings were printed and are available and show precisely what occurred.

Representative McFADDEN. During the closing days of the Wilson administration the then Secretary of the Treasury presented to the Ways and Means Committee a request to give the Treasury the right to buy and sell Government securities below par. The Ways and Means Committee very properly refused that authority to the Treasury. The War Finance Corporation being organized, and in order to give it legal status and make it constitutional, was given the right to act in a fiduciary capacity and to buy and sell Government securities.

It so happened that under the administration of Mr. Meyer—I do not want to prolong this—the Government securities were somewhat below par. The Treasury, instead of placing orders direct with the bankers and investment dealers for the purchase and sale of bonds for the sinking fund, saw fit to place these orders for purchase and sale by and through the War Finance Corporation. These transactions were handled almost exclusively by Mr. Meyer as manager of the War Finance Corporation.

During a period of six months to a year our hearing disclosed, as I recall it, that they ran into, I am safe in saying, I think, $2,000,000,000 worth of these securities that were bought and sold. I mention that because of the fact that it was well known, and I think so stated from time to time, that this was a stabilizing of the market program on Government securities.

Senator CAREY. Did I understand you to say that Mr. Meyer handled this business through his own offices in New York?

Representative McFADDEN. I have not said that, but the hearings in the committee disclosed, very much to the surprise of the committee, that Mr. Eugene Meyer, as manager of the War Finance Corporation engaged in these important Treasury operations placed those orders, many of them, if not all of them, first with the banking house in New York located at 14 Wall Street, in the name of Eugene Meyer.

When the committee's activities were stopped, because of the ending of the session of Congress, Mr. Meyer was engaged in explaining to the committee the fact that Eugene Meyer, jr., got no commissions on these transactions. He had not at that time convinced the committee of that fact, but had convinced the committee of the fact that commissions were paid in the usual manner on transactions of that kind coming about because of the purchase and sale of securities.

Those hearings should have been completed but they were not completed; they were stopped at that very interesting phase of this undertaking.

Senator WAGNER. Are you speaking of the Senate hearings now?

Representative McFADDEN. No. I am speaking of the hearings of the subcommittee of the Committee on Banking and Currency of the House.

I would like to mention in this respect that I have no knowledge, except by hearsay, of the hearings that were held by the Senate committee which have been referred to here but I do not believe that any members of the subcommittee of the House that had that particular matter in charge were heard before the Senate committee in regard to this particular proposition.

I mention this because of the fact that it carries through the same kind of operations which stock brokers in the market in New York often carry on. It is a practice with people who have securities that they want to float on the market to go to brokers and brokers help them to make a market. Some times we have wash sales. But they organize a group of brokers and they begin to send out favorable reports in regard to securities, making the matter attractive to the public. I do not need to go into detail because the Senators are familiar with those transactions.

Those same practices were largely introduced in these transactions that were carried on with Mr. Meyer under the Treasury undertakings, the purchase and sale of these securities. That is a matter which the Senators who are to pass on the fitness of Mr. Meyer to be Governor of the Federal Reserve Board should have explained fully and in detail.

It seems to me to be most unethical for a man holding such a Government position to carry on Government transactions, even with the consent and approval of the Treasury, to use his own private brokerage house in New York for the purpose of carrying on these transactions. It is fair to say that in connection these orders his house in New York distributed to other brokerage houses; as I recall it, six were favored in that connection, and they passed out these orders to something like 75 or 80 houses.

Senator BROOKHART. Can you name those six?

Representative McFADDEN. I can not now. These unfinished hearings will disclose that full information.

Senator WAGNER. My recollection is that the evidence established clearly that the hearings to which you refer showed that the board had no accommodations in New York and Mr. Meyer gave over to them his old office space and charged nothing to the Government for the use thereof. That is how the transactions happened to take place in that office.

Representative McFADDEN. Even if that were the case, I am sure that the Senator is not attempting to defend the ethics of that.

Senator WAGNER. If he did not occupy them himself and gave his own offices to the Government free of charge, I should call that a contribution.

Representative McFADDEN. I would say that it was very unethical for the manager-director of the War Finance Corporation to carry on transactions, either gratuitously or otherwise, with his own brokerage house in New York.

Senator BROOKHART. Would not any other brokerage house have welcomed the Government coming in in that sort of way, and would it not be improper for a Government officer to go into any brokerage house in that way?

Senator WAGNER. Where the offices are used exclusively for the use of the Government?

Senator BROOKHART. They were not used exclusively for the use of the Government.

Senator CAREY. I think we can question Mr. Meyer on that subject.

Senator FLETCHER. Mr. Meyer's office in New York was not known as the War Finance Corporation office at all. It was Eugene Meyer's office.

Representative McFADDEN. In connection with these operations the unprinted minutes will show that millions of dollars worth of these securities were bought and sold through this channel daily; transactions were recorded of sales in the morning of millions of dollars worth of these securities and repurchased in the afternoon at different prices. The whole thing was a clear indication of the process of manipulating the Government bond market; and the hearings show that losses were frequently sustained and profits were made. It is fair to Mr. Meyer to say that in whatever profits were made or losses incurred the Treasury of the United States was the beneficiary or the loser. I mentioned that because of the fact that it is a manipulation of securities markets; this time for the benefit supposedly of the United States Treasury, but, nevertheless, it shows that the facilities, the activities, and the knowledge of Mr. Meyer were put to work in this particular case.

Senator BROOKHART. I believe you said that the Treasury had asked authority to do this from the Ways and Means Committee of the House.

Representative McFADDEN. And it has been directly refused to the Treasury.

Senator BROOKHART. Then they carried it out through Mr. Meyer?

Representative McFADDEN. Through the War Finance Corporation that provided capital out of the Treasury of $500,000,000, which was used to carry on practically the same operations that the Ways and Means Committee had refused to the Treasury.

Senator CAREY. Mr. McFadden, did you not state that the Treasury asked the Ways and Means Committee for consent to sell securities below par?

Representative McFADDEN. Yes.

Senator CAREY. This effort on the part of Mr. Meyer and the Treasury Department was to keep the Government securities above par, was it not?

Representative McFADDEN. That was the effort; yes.

Senator CAREY. And the Treasury Department was back of whatever Mr. Meyer did in this particular instance?

Representative McFADDEN. Yes; the point that I am making in this connection is that his knowledge and acquaintance with the manipulation of the securities market was utilized in this particular transaction. The record of the hearings which have not been printed will disclose the details of these various transactions to which I am referring here.

Senator BROOKHART. It is your theory that the Treasury should not go into that gambling up and down the market at all?

Representative McFADDEN. I am not expressing here an opinion as to what the Treasury should do or should not do. I am attempting to deal with the kind of service that Mr. Meyer has rendered and is finding readily available to carry on these transactions.

Senator CAREY. Was not the Government attempting to stabilize Government securities?

Representative McFADDEN. Apparently so; yes, Senator.

The Whaley-Eaton Service, which is a news service, on September 6, 1930, had a very interesting article which I desire to read. It referred to the matter under consideration here before the committee at this time. It follows:

> New York, on the other hand, needs help and was embarrassed when Mr. Platt, representing that district, did not, for a period, see eye to eye with the metropolis.

Then, on page 4 of this same letter of September 6, 1930, this significant statement occurs; and it has a bearing on that which I have just been saying:

> Mr. Meyer knows the security markets; he is one of the best bond men in America; he is intimately acquainted with international finance; he has learned to love public service and he mixes well. He is independently wealthy and salary *considerations do not weigh with him.*

That checks up with what I have been saying about his qualifications for carrying on the well-known stabilization processes.

In the Whaley-Eaton Service letter which came out under date of January 17, 1931, on page 3 there appears the following:

> The way is being made ready for some substantial international financing. If it is in the power of financiers to do so, therefore, the bond market is going to be strengthened. International bank elements continue to discuss the possibility of stabilizing the commodity markets, and they may be able to get somewhere.

That is a clear indication that in the future operations of the Federal Reserve under Mr. Meyer these previous practices are going to be put into play and the Federal reserve system is going to be operated largely as a securities bond market, and the international situation rather than serve the great business interests of the country and the rank and file of the people of this country. I mention this because it has a bearing on the future operations of the Federal reserve system.

Among the gentlemen that I suggested that you call before the committee was Mr. George F. Rand, the president of the Marine Midland group of banks, and Mr. Alfred A. Cook, a lawyer of New York, who I understand is attorney for the Marine Midland group. They might be able to give you additional information pertaining to the suggestion that Mr. Platt's resignation as vice governor of the Federal Reserve Board was an arranged affair.

Regarding this whole matter of these various connections with the international situation, I desire to make a few observations here referring to some of my previous statements.

I desire to call attention to the fact that under the emergency of war, which demanded the extension of almost unlimited credits to the Allied Governments, the Government at Washington permitted the growth of power in the Federal reserve system until it became almost autonomous. This power was not reduced or curbed after the war by Government action. So far as its exercise has been restrained, it has been restrained only by the influence of public opinion.

A year ago I invited the attention of the Congress to this fact, and to the need for supervision of the policy of the Federal Reserve Bank of New York.

Last spring I called attention to the developments of the Stresemann policy in Europe, which disclosed itself primarily as an Anglo-French political policy having for its object the floating of over $3,000,000,000 worth of German reparation bonds chiefly on the American investment market.

I showed that circumstances plainly indicated that the Federal Reserve Bank of New York was entirely willing to see the consummation of this policy and that the private international bankers of New York, who were in intimate association with the board of the Federal Reserve Bank of New York, were among the chief movers in the development of the Stresemann policy, and were strenuously endeavoring to float the reparation bonds on this market. It was quite clear that under the guise of an economic transaction this was an attempt to commit the United States Government to a political policy which it had avoided taking up when the Treaty of Versailles was signed. It was an attempted usurpation of the prerogatives of the Congress.

I also called attention to the progressive use by the Federal reserve bank since 1923 of credits to the Bank of England, the Bank of Belgium, and the Bank of Italy, and to its practice of buying bills abroad in order to enable foreign banks to avoid shipment of gold to the United States.

Every transaction of this kind ought to come before the Congress for its action because the political elements involved are invariably paramount.

Unchecked by the political government at Washington, the Federal Reserve Bank of New York has extended its commitments in Europe progressively over a period of 10 years and is now following a course where the political status quo in Europe is dependent upon its will. It deals with political considerations in Europe upon a vast scale.

Undoubtedly Europe can make use of colossal credits. It is expecting them to come from the Federal Reserve Bank of New York.

It is the inclination of the Federal Reserve Bank of New York to make them. Following the stock collapse of 1929 the bulk of the liquid wealth of the country has been drawn into the New York banks. As the situation is to-day, the Federal Reserve Bank of New York has the power to pour this great fountain of credit into Europe instead of pouring it back into the interior of this country.

Mr. Eugene Meyer belongs to the school of financiers who would make liberal use of this fountain of credit for the states of Europe. His training and associations are such that he could follow no other school of financial thought. The confirmation of this appointment by the Senate would mean more than approval of the personal and professional qualifications of the nominee. It would fix a national political policy.

The decision of the questions involved ought not to be made indirectly, offhand, and without consideration of their merits, as it would be in taking favorable action in this case.

No man of the school of finance to which Mr. Meyer belongs ought to be appointed governor of the Federal Reserve Board at this time. The Federal Reserve Board ought now to await the settlement of certain questions by the Congress before seeking to determine its future policy. A governor of that board should be appointed at this time who is willing to await congressional action upon questions which will determine the future policies of that board.

The question "What are the purposes of the Federal reserve system?" calls for decision by the Congress now. What use is to be made at this time of the bulk of the country's liquid wealth which has been drawn into the Federal reserve district of New York? Is it to be sent out of the country, reducing industrial activity here in order that industrial activity may be revived abroad, or is to go back to revive trade in the interior? This is a political question to be decided by the Congress of the United States.

Now, I want to point out in this connection that there was observed during the hearings had by this subcommittee in the House the close business relationship by and between Mr. Meyer and these various brokerage houses in New York, and particularly the association and connection with J. P. Morgan & Co. All through the study of these transactions that were carried on in connection with this so-called stabilizing of the bond market the relationship between the manager-director and the house of Morgan was very intimate and close, in that when certain issues of securities that were designated by letter were desired to be called by the Treasury, invariably these bonds were always ready and available by and through the cooperation of the Morgan firm and the Federal Reserve Bank of New York.

In this connection there has already gone before the Senate—I think it was referred to in Senator Brookhart's statement on the floor of the Senate—a clipping from the New York Times of December 5, 1930, in which Harrison reports conditions abroad, and states that the Governor of the Federal Reserve Bank meets the directors after a trip to Europe; that J. P. Morgan makes a call and that Owen D. Young joins Harrison in telling of a conversation with foreign bankers.

I would like to suggest right here that along with other things that should be gone into in connection with Mr. Meyer's qualifications, or his business connections and his affiliations at the present time, is the report that Mr. Meyer is one of the large stockholders of the Allied Chemical Co. and that the Morgans are also very largely interested.

The qualifications of the governor of the Federal Reserve Board, so far as his business relationships, directly or indirectly, are concerned, are vitally important to the Federal reserve system and to the people of this country, particularly so when we review the experiences of the past two years in which great readjustments have taken place in regard to transactions of New York financial houses and the stock market and the debacle of October, 1929.

I want particularly to direct the attention of the committee to this item in the Times to which I have just referred. This news item avoids very carefully any reference to what Mr. Morgan said at this meeting. Mr. Morgan had no more business attending a meeting of the board of directors of the Federal Reserve Bank in New York than one of these newspaper boys present here at this meeting. I mention this to show how completely that affiliation is working out.

Mr. MEYER. Mr. Chairman, may I interrupt for just one second? Mr. Morgan was not at a meeting of the board of directors of the Federal Reserve Bank of New York.

Representative MCFADDEN. I am very glad to know that. This newspaper article indicated that he was present.

Mr. MEYER. I was at the meeting and Mr. Morgan was not present. If Mr. Morgan was in that bank that day I did not see him. He was not at the meeting and the only information I have is what is in the newspaper item to which Mr. McFadden referred. I might say for the benefit of the committee that I have not seen Mr. Morgan since 1921, to my knowledge, when he was called down to Washington to the office of the Secretary of the Treasury to assist in organizing a cattle livestock loan pool of $50,000,000 for the benefit of the stock raisers in the West.

Senator BROOKHART. Was that what ruined the stock raisers in the West?

Mr. MEYER. I do not know what ruined them. It saved a great many that would have been ruined.

Representative MCFADDEN. I want to call the committee's attention to a colloquy that appears on page 273 of the hearings on H. R. 7895 relative to a loan which was made to Great Britain by J. P. Morgan & Co. contributing $100,000,000 and the Federal Reserve Bank of New York $200,000,000. I desire to read for your benefit this information:

The CHAIRMAN. Are you of the opinion that it is the spirit of the Federal reserve act that there might be invested these legal reserve deposits or the capital of the Federal reserve system to the extent of $200,000,000 in foreign securities such as is provided in this agreement?

Mr. SEAY. Beyond any question; we have that right to deal at home or abroad.

The CHAIRMAN. Under section 4?

Mr. SEAY. Yes, sir; at home or abroad in foreign exchange, and no limit is placed on that.

The CHAIRMAN. The newspaper reports of this loan indicate that when this credit was granted the Federal reserve banks participated to the extent of $200,000,000 to either the Bank of England or Great Britain, and it indicated at the same time there was a credit of similar nature granted by J. P. Morgan & Co. Newspapers also reported that J. P. Morgan & Co. was getting a commission on that transaction, so far as their loan is concerned, but that the Federal reserve system was getting no profit from the transaction; and I have here a newspaper clipping from a recent issue of the New York Times which I want to read to the committee [reading]:

"MORGAN SILENT ON FEE—REFUSES TO TALK ON $1,125,000 CHARGE FOR $100,000,000 CREDIT TO BRITAIN

"Officials of J. P. Morgan & Co. refused to comment yesterday on the statement of Winston Churchill, British Chancellor of the Exchequer, that the cost of the $100,000,000 credit which Great Britain obtained from the Morgan firm at the time of the return to the gold standard, was $1,125,000 to the end of the first year.

"The interest charge in connection with the credit never has been announced here, but it was said yesterday that it was a matter of public record in London and was published there when the credit was obtained last April. The Bank of England obtained a $200,000,000 credit from the New York Federal Reserve Bank at the same time the British Government arranged the Morgan credit. Neither credit has been drawn upon. Both were obtained as a precaution against exchange pressure when Great Britain resumed gold payments."

That naturally raises the question as to who negotiated this $200,000,000 credit, whether J. P. Morgan & Co. or whether it was arranged jointly with the Federal Reserve Bank of New York; and if the Federal Reserve Bank of New York arranged their part of it, why didn't they make a charge for this service the same as J. P. Morgan & Co.? Is there any agreement as regards payment for this service?

Mr. Strong. Because J. P. Morgan & Co. got all the traffic would bear; there would be nothing left.

Now, since this loan was made by the Federal Reserve Bank of New York, which tied each one of the other 11 banks into a participation in this, the Federal Reserve prior to this date was carrying on conferences with the central banks of Europe in regard to gold movements, international exchange, and so forth, a part of which was probably all right. This relationship, however, was not contemplated in the law, and much of it is being carried on without considering a strict interpretation of the law.

I am not attempting to criticize or to say that the Federal reserve system should not have relationships with these central banks of issue in the major countries of the world. There is much that this country has to do financially and in a business way with these countries, and relationships of a financial nature are necessary.

I do say this, and I want to stress this to the committee, that there is plenty of evidence to show that all international financial transactions, many of which have a bearing on the political angles of the disputes in the various countries of Europe, are carried on by and through these international banking houses, principally J. P. Morgan & Co., who are not, under the law, in any respect whatsoever, authorized to act for this Government or any of its branches.

I want to point out clearly to you that J. P. Morgan & Co. constitute a private banking house engaged in the business of financing and investment banking, both domestic and international, for the purpose of making money. They have at times rendered great public service to this country.

It has been repeatedly asserted that they were also the fiscal agent of Great Britain, France, Belgium, and Italy. They have connections both in London and in Paris, and I presume in other central financial markets of the other countries of Europe. I do say this, however, that in many of these financial transactions there is involved financial, economic, and political issues, and oftentimes, and practically at all times, when this firm appears in Europe on financial operations they are speaking, maybe by acquisition or by deference, for the combined financial resources of the entire United States. That is the way they are regarded by the financial interests and the countries abroad. I want to point out the danger of the tendency of those kinds of relationship and the carrying on of them clandestinely.

If those relationships are essential to the best interests of the people of the United States they should be authorized by law and if they are authorized by law they should be supervised.

This question of foreign loans, this question of these great financial operations, has a bearing and effect on the Federal reserve system. They have a bearing and an effect on other international financial transactions and a direct bearing on the welfare of 120,000,000 people living in the United States.

I have no quarrel with J. P. Morgan & Co. as such in this matter, but I do think it is of the utmost importance to the people who have regard for the maintenance of this country's welfare and the welfare of the Federal reserve system that these kinds of financial operations, which involve the shipment of gold, the political determinations of the countries of the world, the determinations of the welfare of the people of this country, should have some supervision. They can not be carried on without effective operations of the Federal reserve system and the business structure of this country, and I point out that they are being conducted to-day without that authority.

It has a direct bearing on the particular financial and economic operation which confronts this country to-day because of the fact that the savings and the equities of probably 20,000,000 people have been taken from them through this orgy of speculation which to those who are best qualified to speak is indicated as having been brought about, to a very large extent, by the mistakes in the operations of our financial system.

I do not need to go any further than to point out to you the evidence that was submitted to the Glass committee last week when Mr. George L. Harrison admitted these mistakes.

I have repeatedly pointed out how in the summer of 1927 the heads of the foreign banks of Europe came over here and persuaded the heads of the Federal Reserve Bank to the idea of lower discount rates which stimulated the stock speculation which resulted so disastrously in the fall of 1929.

That is now admitted by the Federal reserve. They have also confirmed the statements which I have repeatedly made, and which have been disputed from time to time, as to the other change of policy in the spring of 1929, in February, when they announced a complete change, which was the beginning of the decline, not only in business but in the prices of securities that led up to the catastrophe in 1929.

The influences of the international group and the manipulation of securities in the so-called well-known plan of the stabilizing of securities are important in connection with this very matter here, because you have here the question as to the type of man who is going to guide the future of the Federal reserve system. My observation of Mr. Meyer is that he is a dominating influence. The experience of the different boards on which he has served has been that he is a strong power in all of these operations.

I want to go a step further in connection with this particular situation in which the country and the people of the country find themselves in regard to the present financial position; and that is that during this period of inflation, which started back in 1922, and gradually worked up to a period of extreme height when the credit was released in 1927, these financial houses located in New York and elsewhere, principally in New York, under the system that had been developed by mass production saw an opportunity to consolidate and reorganize thousands of institutions of this country, and they did not lose their opportunity; they reached out all over the country, and every concern practically that had arrived at a point where it had an earning power and ability was picked up at a price. They took them over and reorganized them into new institutions and financed them through these houses in New York, issuing, oftentimes, twice the amount of securities of the value of the property. They developed this well-known basis of the value of securities depending on the number of so many times their net earnings, and they took out the cream by their operations and sold the residue to the investing public of this country at the high prices.

We now find that the banks of the country are holding the bag and are holding these investment-adulterated securities. It is a situation with which the Congress or some authority should have something to do, because it has deflated the purchasing power of the public to the extent of billions of dollars.

Now, I want to make this suggestion that has a bearing on this whole matter, there has to be some kind of regulation over that angle of things, and I want to ask you whether the type of man that is being suggested here as governor of the Federal Reserve Board is the type of man to direct this situation?

My own thought is that we should have a recreation of a board in this country along the lines of the old capital issues board, which was a part of the war finance corporation act. That board should have supervision over the issuance and sale not only of domestic but of foreign securities in the United States. I do not believe you are going to correct this situation in the United States until there is recreated some supervisory board or power over the sale in this country of not only domestic but foreign securities.

Perhaps I am taking altogether too much of the committee's time, Mr. Chairman.

Senator CAREY. There are several witnesses here from out of town who would like to be heard to-day.

Representative McFADDEN. If it is agreeable to you, then, after these other witnesses that I have suggested have been heard, perhaps I can complete other phases of this statement. If that is agreeable to the committee I will take my leave at this moment.

Senator GOLDSBOROUGH. I would suggest that Mr. McFadden proceed.

Representative McFADDEN. In this international relationship I want to point out that the firm of Morgan & Co. have been interested in all of these great international problems which are so vital now to a solution of the world situation, and they have a bearing and effect on our own domestic, economical, and financial situation. They financed and sold in this country one-third of the reparations loan a year ago. Those bonds were floated at 90 and they are now selling in the 70's. Subsequently to that Lee Higginson & Co., closely affiliated with the Morgan house, with foreign connections, floated a loan to Germany of $125,000,000, and now the same house is in negotiation to grant an additional loan of $40,000,000 to Germany.

These relationships are made possible by the assent of the management of the Federal reserve system, and they have a vital bearing, as I have said previously, on all of these international relationships.

Mr. MEYER. Under what authority has the Federal reserve system control of the floating of bonds of banking houses?

Representative McFADDEN. They have not any authority.

Mr. MEYER. But you said they had.

Representative McFADDEN. When did I say that?

Senator BROOKHART. I did not understand that. I understood him to say that there should be a board that should have such authority.

Mr. MEYER. That is a different question. Will the reporter read the remarks of the Congressman on that subject?

(The reporter thereupon read from the record as follows:)

These relationships are made possible by the assent of the management of the Federal reserve system, and they have a vital bearing, as I have said previously, on all of these international relationships.

Mr. MEYER. That is what I am talking about.

Representative McFADDEN. I do not mean to infer that they have the legal authority vested in the law.

Mr. MEYER. You used the word "assent," implying that permission is asked and given.

Representative McFADDEN. Not necessarily.

Mr. MEYER. What does "assent" mean?

Representative McFADDEN. It means that the Federal reserve are sympathetic to the carrying on of these transactions by this group.

Mr. MEYER. Assent does not mean sympathetic. Assent means authority; it implies authority.

Representative McFADDEN. I do not care to get into an acrimonious discussion on this, but I would point out, however, that the Federal reserve system is first charged with the responsibility of maintaining a gold standard and supervision of the total volume of credit in the United States. Those are two main functions of the Federal reserve system.

Senator BROOKHART. Would it not be worse if the Federal reserve assented to this without authority than if they had authority?

Representative McFADDEN. Yes. The point that I do want to emphasize here is that during all of this inflationary period the operations of the Federal reserve system synchronized in such manner with all of these houses that were handling international operations and domestic flotations that they had access to the credit facilities of the Federal reserve system, and Federal reserve credit was made readily available to this class of financing or dealing. I reiterate that statement now, and I can say to you that under the change of policy that was recently announced by the Federal reserve system an inflationary policy is now again being established and those in authority are being admonished to use it for purposes of improving the market; so that these houses that are engaged in these transactions are synchronizing their operations now to use these Federal reserve credits which are available at this time. It may be worthy and it may not. I am not saying that it is not.

I want to see business stimulated in this country and put back to normal but at the present time the policy of the Federal reserve is that all inflation and all of the powers are to be used to improve the bond market. I am not saying that it is detrimental, but I am showing how under the well-known plans of stabilizing, that policy is being carried out at the present time.

Senator WAGNER. Are you criticizing it, although you do not know whether it is good or not?

Representative McFADDEN. I am not criticizing it. I am just pointing out that the administration is admonishing the investment houses to do everything they can to improve the bond market.

Senator BROOKHART. Are you familiar with the fact that these stocks in New York on Prof. Irving Fisher's Review are still 208 per cent above the level of 1914?

Representative McFADDEN. I have not made that comparison.

Senator BROOKHART. And that the 1914 level was 33 per cent above the 1904 level, all of which would indicate that we are still on top of a volcano, so far as this stock booming is concerned.

Representative McFADDEN. In connection with the examination which the committee are to make, inasmuch as I have suggested the calling of these various witnesses, may I outline to the committee certain phases of this on which I think it would be proper to question these witnesses? I do not want to attempt to suggest to the committee, but there are certain angles on which I think it would be well to have information.

I have already referred to the possible business connections, financial connections, of Mr. Meyer, and have stated that they should be set forth fully to this committee as having a bearing on the future operations of the Federal reserve system.

I will take these up in order. First, there is Mr. Alfred A. Cook. I know that Mr. Cook was special counsel of the War Finance Corporation in railroad matters here in 1919. He is now attorney for the Marine Midland Corporation, formerly with the Fidelity Trust Co., which was merged with the Midland; and is attorney for and brother-in-law of George Blumenthal, Lazard Freres & Co., referred to in my speech, and is attorney for the New York Times and is a brother-in-law of Mr. Meyer.

Senator WAGNER. Are you now suggesting questions that should be asked?

Representative McFADDEN. I was giving an outline here.

Senator WAGNER. Those questions should be submitted to the chairman.

Mr. COOK. I should like to submit to the fullest examination, Mr. Chairman.

Mr. MEYER. I do not know whether it is out of order or not, but Mr. Strong just happened to come into the room; I did not ask him to come, but he was a member of the subcommittee that studied bond matters about which Mr. McFadden expatiated so much, and I would like to ask the chairman to let Mr. Strong speak for five minutes on that matter at this time.

Senator CAREY. I would rather defer calling Mr. Strong, as some of these gentlemen who have been brought here are very busy and would like to return home.

Senator WAGNER. I think we owe it to a Congressman, who is a busy man, and I suggest that we call Mr. Strong after we get through with Congressman McFadden.

Representative McFADDEN. I was going to suggest that you not only call Representative Strong, but that you call Representative

Steagall and Representative Stevenson, who are also members of the committee. If you are going into that matter, these other gentlemen should be here to make their statements as well.

Senator CAREY. I would like to go ahead with the hearings to-day, if the other members can remain. On account of these witnesses being from out of town we should get through with them to-day.

Senator GOLDSBOROUGH. That is agreeable to me, sir.

Senator BROOKHART. Mr. Chairman, I am interested in a matter before the Senate to-day.

Senator CAREY. The Senate convenes at 12 o'clock noon, but these gentlemen are here and they would like to get away. I think we should hear them to-day, if possible.

Senator BROOKHART. Suppose we go as far as we can.

Senator GOLDSBOROUGH. Suppose we let the witness proceed and then we can hear Mr. Strong.

Representative MCFADDEN. To ascertain what part Mr. Cook took in the employment of Mr. Platt by the Marine Midland, you should know whom he saw and what connections and what conversations were had either between Mr. Platt or Mr. Cook or the Marine Midland people, or anyone else connected with the Federal reserve, the Treasury, or anyone who had anything whatsoever to do with these negotiations.

The question of salary and consideration should also be fairly known in this matter, because in Mr. Platt's letter he refers to the fact that the Federal reserve members are drawing a small salary and that one of the considerations of his change was that he was paid a much larger salary.

You should also understand and know whether any bonuses were given to Mr. Platt, or whatever other inducements were given to him to retire from the membership of the Federal Reserve Board, which to my mind is one of the outstanding positions in the country, almost equal to a membership on the Supreme Court of the United States.

You should also know what stockholdings are held or what changes took place in connection with stockholdings, if any.

You should also know if the resignation of Mr. Young was discussed with Mr. Meyer and Mr. Platt. It might be interesting to know, although I realize how difficult it would be to know, whether a suggestion of the retirement of Mr. Platt was made by the President, or whether it was a voluntary matter. The press reports indicate that it was a matter of consideration in the Treasury and the Federal reserve and the White House. It should be known also to the committee how long this resignation had been in contemplation or whether it was a decision promptly arrived at and executed.

In connection with Mr. Young's appointment it might clarify the situation to know whether or not when Mr. Young left the position of governor of the Federal Reserve Bank of Minneapolis at twice the salary he was drawing and came here he had any arrangement as to future salary after he retired from the Federal Reserve Board.

This all has a tendency to show whether the Federal reserve system is being used other than for purposes of carrying out their functions under the law.

In that connection I am reminded that the governorship of the Federal reserve bank at Boston is being largely used for retirement positions of the Federal Reserve Board. It may be all right, and it may not.

I think it is important to know what conversations took place between Mr. Platt and Mr. Meyer or Mr. Rand or anyone else who may have had anything to do with this matter. I think that covers all I have to say this morning, Mr. Chairman.

Senator BROOKHART. Mr. Chairman, there are some questions that I would like at some time to ask Mr. McFadden.

Senator CAREY. Can you return, Mr. McFadden?

Representative MCFADDEN. Yes; I would be very glad to. May I be excused now?

Senator CAREY. Yes.

Senator WAGNER. May we now hear from Representative Strong, of Kansas.

## TESTIMONY OF HON. JAMES G. STRONG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

(The witness was duly sworn by the chairman.)

Senator WAGNER. Congressman, there was some testimony given by Congressman McFadden which had to do with the investigation held by a subcommittee of the House in to the transactions of the War Finance Corporation and particularly into Mr. Meyer's activities as a member of the War Finance Corporation. Will you, in your own way, just tell us of your inquiry and what conclusions you reached?

Representative STRONG. I would like to say to this committee that I had no idea when I walked into this room of being a witness. The committee to which you refer was a special committee appointed by the Speaker, consisting of five Members of the House, its announced purpose being to investigate alleged duplication of Government bonds. I was a member of that committee.

Tee Committee had an employee on the committee, a Mr. Brewer, who had been conducting investigations along this line as a special investigator of the Attorney General's office, and who was not employed by my vote, and who, I believe, was convinced there had been a great duplication of bonds issued by the Government.

Having practiced law for over 20 years and having been a city and county attorney and an assistant attorney general, I entered upon the investigation, with the determination to try to ascertain from the facts whether or not any duplication of bonds had been perpetrated or had occurred. I did not find during the investigation that any duplication of Government bonds had been made, although it was very evident that some bonds had been numbered in duplicate, and I so announced, and thereby there arose a division on the committee.

In regard to the proposition of the investigation about Mr. Meyer I think Mr. Brewer brought the charge that Mr. Meyer collected on his own account and for his own interest a small amount for bonds sold during the time that he had charge of the stabilizing of the market price of bonds for the Treasury Department.

I went into the matter very carefully, and my recollection is that Mr. Meyer came before our committee and the evidence that he produced showed conclusively that that small amount per thousand went to the bonding houses which sold the bonds and that Mr. Meyer did not have any part or share in it.

Senator WAGNER. Was any question raised as to the occupancy by the Government of the premises formerly occupied by Eugene Meyer?

Representative STRONG. Yes; and my recollection is that the testimoney was that Mr. Meyer went to New York with some one connected with the Treasury Department for the purpose of securing suitable rooms for use by the War Finance Corporation. That was before the present Federal Reserve Bank building was built. There was no room found available, and Mr. Meyer offered to give the use of rooms that had been formerly occupied, or were occupied, by the bonding house that he had and the business of which was suspended by reason of the activities of the Government engaging in the selling of bonds. Those rooms were so used; and, if my recollection serves me correctly, they were used without expense to the Government.

Senator FLETCHER. Were these transactions in New York in reference to the buying and selling of bonds conducted through the War Finance Corporation or through Eugene Meyer, investment banker?

Representative STRONG: My recollection is that they were being conducted by Mr. Myer as director of and for the War Finance Corporation at the request of the Treasury Department and had no connection with his private bonding business that had been discontinued.

Senator FLETCHER. And his business was still being conducted there, was it?

Representative STRONG. No. Through his donation of the use of such offices to the United States, his business, as I understood it, was discontinued.

Senator FLETCHER. He carried on his business as an investment banker all this time.

Representative STRONG. My recollection is that the testimony showed that he did not; that when the Government went into the sale of bonds he abandoned his bonding business. If I remember correctly, he was ready to sail to Europe and he was asked by the Treasury to forego his trip and take charge of the sale or the stabilizing of the bonds being sold by the Treasury Department.

Senator FLETCHER. Do you know when he gave up that business as an investment banker?

Representative STRONG. I do not know personally anything about Mr. Meyer's business at all, but I so understood such to be the fact.

Senator BROOKHART. Was it not the other way? Had he not planned to close his business as an investment banker or broker and then did he not revive it again when this War Finance Corporation work was taken up?

Representative STRONG. That was not my understanding. I did not understand that he revived his business, but rather that he went out of business because the Government went into the bonding business.

Representative MCFADDEN. May I suggest that the best evidence is the hearings which were held and which are available to your committee? May I suggest also that there be placed in the record at this point the report that was filed by the gentlemen referred to here as being members of the House committee so that your committee may know exactly what the business was. I will place it at this point in the record.

(The report referred to, being Rept. No. 1635, 68th Cong., 2d sess., is as follows:)

[House Report No. 1635, Sixty-eighth Congress, second session]

REPORT OF SPECIAL BOND COMMITTEE UNDER HOUSE RESOLUTION 231

Your special committee, appointed under House Resolution 231, Sixty-eighth Congress, first session, "To investigate the preparation, distribution, sale, payment, retirement, surrender, cancellation, and destruction of Government bonds and other securities," having considered the matters placed before it for their determination, respectfully report the following:

Government bonds and other securities, the subject matter of the inquiry, are printed by the Bureau of Engraving and Printing on distinctive silk-fiber paper made at the paper mills, Dalton, Mass. They are issued by the Treasury Department proper, principally through the Federal reserve banks to the other banks and the public. Some of these reach the public directly from the Treasury. After circulation the securities are retired or redeemed, from the public and the banks generally, through the Federal reserve banks and the Treasurer of the United States, some coming directly to the Treasury. They are surrendered to the Register of the Treasury. Some reach the register through the Treasurer of the United States and through the Loans and Currency Division of the Treasury.

The annual report of the Secretary of the Treasury for 1924, filed with Congress, pages 76 to 81, refers to the subject of duplication of bonds, and in a "letter" to the President of the United States dated April 26, 1924, the Secretary of the Treasury submitted a special report consisting of about 200 pages of printed text and tabulated matter purporting to prove there had been no duplication of the public debt and that charges to this effect were wholly unfounded. Your committee has given most careful consideration to these reports, together with other statements submitted to the committee by the Secretary and the Undersecretary of the Treasury.

Mr. Charles B. Brewer had orders from the President to make an investigation of the matter. When the committee was commissioned by Congress to make its investigation Mr. Brewer had a like commission from an executive department. The benefit of his service as counsel to the committee was extended by Attorney General Stone. The committee had the advantage of the knowledge previously paid for by the Government, without which substantial headway during the time allotted would have been an impossibility. His services have been that of an exceptionally devoted and capable public servant.

From its examination of Treasury reports and records and the testimony of Treasury officials and employees, your committee finds that—

DUPLICATE BONDS

1. Duplicate bonds amounting to 2,314 pairs and duplicate coupons amounting to 4,698 pairs, ranging in denominations from $50 to $10,000, have been redeemed to July 1, 1924—that is, two bonds and two coupons bearing identical numbers. The statement as to coupons includes only one for each bond. If the various duplicated coupons of the same bond are included, the number would be greatly increased. Duplications resulting from the slipping of the numbering machines are negligible and inconsequential. Some of the duplications have resulted from error and some from fraud. The proportion has not been determined. The extent of the duplications is also uncertain from the record as far as it has gone, and an important part of the work by which duplication is detected was stopped by the Treasury in July, 1924, referred to later in section 8 and elsewhere.

2. Duplicate payments of identical bonds, stolen from Treasury vaults by employees and again circulated, have been made. The extent of such thefts is rendered uncertain by inexact methods and faulty accounting.

3. The Secretary of the Treasury in his letter of April 26, 1924, admits that duplicate numbers are out, but denies duplication in fact and undertakes to show how it occurs. On pages 96 to 136 of his letter he sets out tables which attempt to explain his conclusion that no duplication in fact occurred and has reiterated the same statements before this committee. An example or two will illustrate the matter:

On page 97 he sets out that while two second 4¼ per cent bonds numbered 785052, $50, are now in hand, both paid by the Treasury, that one of them is a "make-up" for bond 822052, $50, which was found defective, and the clerk making the substitute made a mistake and numbered it 785052 when it should have been 822052, thus duplicating the 785052 already out, and no bond 822052 was in fact ever issued. Unfortunately, bond 822052 has now come in and been paid, and if make-up 785052 were issued to take its place a duplicate of that number was thus made, and if not, a duplicate of 785052 was issued and sold—in either event the Treasury is charged with three bonds where two were legally issued.

On same page is set out 2333877 orginal second 4 per cent, $100; 2333877 make-up second 4 per cent, $100. The make-up is said to be for bond 2343877 defective and not issued, and the clerk made a mistake and made the number of make-up 2333877; but, contrary to that statement, bond 2343877, said never to have been issued, had actually come in and been paid four years before, but had not been so entered on the records. Finding it, of course, destroyed the statement that it was not issued and showed three bonds out where only two were supposed to be from the records. This has occurred 58 times up to February 11, 1925, and we are informed is continuing to occur regularly. The Secretary says in his letter, page 32, that 2,017 cases of duplication had been discovered up to that time and 1,668 of them had been definitely set off against other numbers. In the other 349 cases "definite allocations of set-off numbers have not been established," so the set-off numbers against 1,668 had, we assume, been definitely established, and he sets them out, and first we find these numbers set off against a duplicate bond and the assertion made that no bonds of set-off numbers were outstanding, in the face of the fact that the set-off numbered bonds are coming in day after day, and nine of them were in the Treasury paid when his letter was issued.

An instance illustrating the danger of this theory is shown in another part of the Secretary's letter to the President. A first Liberty loan 3½ per cent $100 bond numbered 1123797. On page 116 this bond is stated not to be a duplicate, and it is also stated that the irregularity is due to the fact that coupons on the bond are numbered differently from the body of the bond, the coupons being numbered 1122797. However, it will be noticed on page 125 of the Secretary's letter that this bond, numbered 1123797, appears again and is there acknowledged to be a duplicate. Here the Secretary allocates to one of the duplicate bonds the number 1123787, which bond would thus take the place of the duplicate. Since this allocation was made, bond with the allocated number 1123787 has been received and paid. This means that there are not only two bonds numbered 1123797 and a third one numbered 1123787 when there should only be two, but that the coupons on one of the duplicate bonds are misnumbered, which embodies the kind of an error that would stamp it a spoiled bond. All spoiled bonds are supposed to be destroyed, as this bond should have been, instead of its getting into circulation.

Again, when there is a defective bond discovered in the process of issue, a record of it is made and a make-up issued in its place, the record being made both in loans and currency and the Bureau of Engraving and Printing. These records showed only a few, possibly a half dozen, of the 1,668 set-off numbered bonds to have been defectives and make-ups issued in place of the original. This allocation of set-off numbers is merely a guess, and that it is totally unreliable is rendered patent by the subsequent appearance of the bonds with those very numbers and their payment by the Treasurer. We can not escape the conclusion that there is a considerable duplication in bonds (not merely numbers) and that the whole public debt should be audited. A suggestive circumstance is that duplication of $50 and $100 denominations are much the most numerous, and, being more easily disposed of without arousing suspicion, they arouse our suspicion of their being more the result of design than accident. The fact that many of the bonds are destroyed, making it impossible to tell which were honest and which were spurious when duplicate numbers are presented, emphasizes the importance of the issue as to destruction of the bonds.

The Secretary says in letter of February 4, 1925, that the allocations made in the letter of April 26, 1924, were "tentative selection of numbers presume to represent the bonds displaced as a result of erroneous numbering, erroneous entering, erroneous posting, or willful alteration by thieves." If the Secretary relies on as many erroneous processes in his department as he cites above, to be sure we need an audit. He says, further, "the allocations, therefore, are merely the Treasury's prediction or opinion as to the particular 'serial numbers which were issued.'" What the Congress wants is facts. The department is now reduced to predictions and opinions and both are being daily contradicted by stern facts, to wit, bonds which they said could not be presented, because not issued, turning up and being paid.

While in the main the attention of the committee has been directed principally to the subject of coupon bonds, they have also looked into the subject of duplication of registered bonds and find that during the period covered by the inquiry 12,000,000 pieces of registered bonds were printed, and that while imperfectly printed registered bonds and Victory notes returned to the bureau for replacement aggregated 35,772 pieces, which indicates that imperfects in printing, spoilage, etc., were found perhaps as frequently in registered bonds as in coupon bonds, only five duplicated numbered registered bonds have turned up for payment in comparison with the several thousand duplicated coupon bonds. Naturally the inference drawn by the committee is strengthened by this conparison, due to the fact that collusion was practically impossible so far as registered bonds are concerned as compared with the possibilities of fraudulent issue of coupon bonds.

The committee regrets that the Treasury did not report the appearance of these bonds with allocated numbers to it, but only admitted it when called on by the committee for the facts. This was on a par with its attitude all the way through. It is clear that the accounts of the Treasury pertaining to the public debt do not and can not be properly balanced.

### SAFEGUARDS ABANDONED, DUPLICATES NOT INVESTIGATED

4. Whether or not the major duplication resulted therefrom is yet to be determined, but it is clear there was opportunity for fraudulent wholesale duplication of Government bonds at the Bureau of Engraving and Printing, the Division of Loans and Currency, and the register's office and that the opportunity was so created by the abandonment of regulations formerly designed as safeguards and was encouraged by loose practices in bookkeeping and accounting methods and failure to cancel bonds when paid and that some outstanding frauds have resulted from these practices.

5. Falsification of records has occurred as to stamps, stamp paper, and distinctive silk-fiber paper and as to shortages of securities in the Bureau of Engraving and Printing and as to the destruction of securities in the Division of Loans and Currency.

6. Little or no attention was paid to duplicate bonds when they were received in the Treasury and known to be duplicates. Employees generally seemed to have prejudged the case and decided that duplication resulted from error. The attitude as to duplicate numbered bonds is well illustrated by the questions of Congressman Strong, of the committee, answered by Mr. Speelman, Register of the Treasury, and they are herewith incorporated:

"Mr. STRONG. It just strikes me, Mr. Speelman, as a very peculiar situation, where a great department is receiving bonds after payment, for cancellation, and they discover that a duplicate number has been paid, that there is not more investigation and more decision about it than simply to report it then forget about it. It forces the conclusion that if Mr. Brewer had not dug this matter up there never would have been any investigation. That seems to me to be a situation that I should hate to see established.

"Mr. SPEELMAN. Well, that seems to have been the policy of the department.

"Mr. STRONG. Then the presumption is that when duplicate numbers come in they do not care; they just presume that everything is all right, and the people are not protected, especially the Treasury. * * *

"Mr. SPEELMAN. Well, I suppose that the Treasury Department would be interested, of course.

"Mr. STRONG. Let me make my thought plain. I get my checks back from the bank. I number every check as I issue it. If I discover two checks numbered alike, I would immediately make an investigation to see whether or not I had issued both checks. If that came up month after month and day after day, I would be put on inquiry as to why I or the person that numbered those checks for me was making a mechanical error, and I would immediately start some investigation about it. And it does seem to me strange that in a great department like the Treasury Department of the United States, where they are issuing these bonds running up into the thousands, when they find duplicate numbers when they come to pay them—the number being put upon the bond for its identification—when they find two bonds numbered alike, and that goes on time after time, it seems to me rather remarkable that you should say that you simply write a letter notifying the Secretary's office that they are duplicates, and that they never come to make any inquiry or pay any attention to it until an investigation is started by the Congress of the United States or some one from the Department of Justice. It seems to me the department itself would have immediately started an investigation. I am rather surprised to have you make that admission."

7. While the Government is not liable for the payment of fraudulent bonds or coupons, such have been paid. For example, coupons that have been altered to secure earlier payment of interest; bonds that have been stolen prior to issue, even though regularly printed under Government authority; and bonds which have been paid and stolen after payment and again passed through regular channel for repayment, as has been the case as disclosed by Treasury records.

8. Protection against fraudulent duplication of bonds and coupons, counterfeits, and stolen bonds and coupons, etc., provided by the courts can not be availed of unless examination at Washington is prompt. By a change in last year's appropriation bill, about which the Treasury was consulted, examination, comparing, and recording of coupons was dispensed with. The committee considers that this examination, comparing, and recording is the Government's principal safeguard against duplication, counterfeiting, and other fraud in coupons whose cumulative value is the same or greater than the whole public debt. This should be restored immediately.

### TREASURY SINKING AND BOND PURCHASE OPERATIONS CARRIED ON THROUGH THE WAR FINANCE CORPORATION

9. In the repurchasing on the market for the bond purchase fund, the sinking fund, etc., the Treasury employed the War Finance Corporation from May 20, 1918, to June 30, 1920, and a part of 1922, and frequently instead of promptly turning into the Treasury the bonds so purchased the War Finance Corporation accumulated large quantities of bonds after they had been purchased, and held them and collected a sum totaling nearly $28,000,000 in interest from the United States Treasury.

The War Finance Corporation carried on from time to time extensive trading operations, and in doing so a partial examination of the transactions indicate that the War Finance Corporation in their trading in these bonds through stock-exchange houses on the stock exchange made wash sales. These operations also disclose frequent selling of bonds on the market at less than cost, and transactions indicate that on the same day bonds were sold at several dollars less per hundred to others than they were sold the same day to the Treasury for the same class of bonds purchased for sinking and bond-purchase funds. An examination of the details of the transactions indicates also that often these bonds were sold to the Treasury at a higher price than the bonds had cost when purchased by the War Finance Corporation. These transactions took place with the approval or the acquiescence of the Treasury, notwithstanding the fact that there is no law which provides authority for the Treasury to sell bonds below par. It is noted in this connection that just prior to the beginning of these Treasury operations on the part of the War Finance Corporation the Ways and Means Committee, in framing the third Liberty loan act, changed the bill which was drawn by the Treasury officials and struck out of it the authority which would give the Treasury the right to sell bonds below par. It is quite evident, therefore, that the carrying on of these transactions by the War Finance Corporation, authority for which was refused to the Treasury Department by Congress, did indirectly what Congress had prohibited directly.

These transactions of the Treasury prior to June 30, 1920 (including settlements for purchases and sales), executed by the War Finance Corporation, were largely directed by the managing director of the War Finance Corporation, and settlements with the Treasury were made principally by him with the Assistant Secretaries of the Treasury, and the books show that the basis of the price paid by the Government for over $1,894,000,000 worth of bonds, which the Treasury purchased through the War Finance Corporation, was not the market price and was not the cost of the bond plus interest, and the elements entering into the settlement are not disclosed by the correspondence. The managing director of the War Finance Corporation stated that he and an Assistant Secretary of the Treasury agreed to the price, and it was simply an arbitrary figure set by an Assistant Secretary of the Treasury as to the bonds so purchased from the War Finance Corporation.

During the period of these transactions and up until a quite recent date the managing director of the War Finance Corporation, in his private capacity, maintained an office at No. 14 Wall Street, New York City, and through the War

Finance Corporation sold about $70,000,000 in bonds to the Government, and also bought through the War Finance Corporation about $10,000,000 in bonds, and approved the bills for most, if not all, of these bonds in his official capacity as managing director of the War Finance Corporation. When these transactions, just referred to, were disclosed to the committee in open hearing, the managing director appeared before the committee and stated that while the books of the War Finance Corporation disclosed the fact that commissions were paid on these transactions, they were in turn paid over to the brokers, selected by the managing director, who executed the orders issued by his brokerage house, and immediately after this disclosure to the committee the managing director employed Ernst & Ernst, certified public accountants, to audit the books of the War Finance Corporation, who did, upon the completion of their examination of these books, report to the committee that all moneys received by the brokerage house of the managing director had been accounted for.

While simultaneously with the examination being made by the committee the certified public accountants, heretofore referred to, were nightly carrying on their examination, it was discovered by your committee that alterations and changes were being made in the books of record covering these transactions, and when the same was called to the attention of the treasurer of the War Finance Corporation he admitted to the committee that changes were being made. To what extent these books have been altered during this process the committee have not been able to determine.

Notwithstanding the fact that there was no authority for the purchase of bonds above par, such purchases were made. The dates of purchases of bonds as given by the Secretary of the Treasury, which would have shown that about $24,000,000 had been paid by the Government for bonds in excess of the highest market rate for the various days on which it was alleged that the purchases were made were found to be incorrect. It was also found that the dates given by the War Finance Corporation and the Federal Reserve Bank of New York City, N. Y., did not agree and that the records of the former also vary as to dates of purchase. For example, the dates furnished by the Fdderal reserve bank statements were sometimes given as the date of delivery of the bonds, sometimes the date of the transaction, and sometimes the date on which the transaction was reported. The dates given by the records of the War Finance Corporation were equally confusing. One transaction in the books of the War Finance Corporation has journal entry as of November 15, 1918, a subentry in the journal as of November 12, the detail sheet is dated November 11, and the dates of purchase given as November 8 and 9. The market prices varied each day. Only a complete audit will disclose how nearly correct is the loss of $24,000,000 which the dates given by the Secretary of the Treasury show.

DESTROYING THE EVIDENCE

10. The bonds and securities of the United States have been destroyed without authority of law. Authority was expressly given to so destroy in section 3695, Revised Statutes, which provided that the bonds purchased for the sinking fund shall "be canceled and destroyed." The act of March 3, 1919 (40 Stats. 1312), dealing with bonds bought for the sinking fund, changed the language to say "shall be canceled and retired and not reissued," and then by a subsequent subdivision on same page expressly repealed the other act, to wit, 3695, which provided that they should "be canceled and destroyed," plainly showing that they intended to substitute inhibition against reissue for destruction. Section 251 of the Revised Statutes passed in 1820, relied on by the secretary to sustain his destruction of bonds, allows him to make regulations for those "in any way engaged or employed in the preparation and issue of the same" as he shall deem best calculated to promote the public convenience and "security and to protect the United States as well as indviduals from fraud and loss." It will be noted that this deals with "preparation and issue" of securities, not retirement or destruction of them. Congress has so construed it, and whenever destruction was necessary it gave express authority. (See National bank notes, sec. 5184, R. S. 1864; United States notes, sec. 3581, R. S. 1862; section as to bonds (now repealed) 3695, R. S. 1870; Money orders, 35 Stats. 415; Federal reserve notes, 38 Stats. 265, Fractional currency, 19 Stats. 215.)

If section 251 authorized it, why did Congress in each case expressly direct it? In addition to this Congress has provided for a congressional committee to destroy useless papers, February 16, 1889, subsequently amended by the act of March 2, 1895. (See 25 Stats. 672, 28 Stats. 933, under which the Secretary of the Treasury has been accustomed periodically to ask for the destruction of papers of many kinds which could be destroyed under section 251 if it permitted destruction at all. (See House Report 966, 68th Cong.)

Section 161, Revised Statutes, is also relied on and it is equally against them. It was passed in 1789 and gives the heads of departments the power to make all regulations necessary to the "custody, use, and preservation of the records, papers, and property appertaining to it." Note that this allows the Secretary to make regulations for the "preservation" of records but not for destruction of the same. The two being absolutely antagonistic, one can not be presumed from the other, and Congress has, with that before them, passed every act enumerated above allowing destruction, plainly showing its dissent from that view.

The criminal law also prohibits it, and it is settled by numerous decisions that regulations must be in confromity with, and not contrary to, law. The act of 1874 (18 Stat. 206), providing for maceration machines, provides that only national-bank notes, United States notes, and other obligations of the United States authorized to be destroyed may be destroyed, thus emphasizing the fact that there must be authority for destruction.

Sections 5403 and 5408, Revised Statutes (Barnes Federal Code, 9825 and 9826), are as follows:

"*Tampering with public records.*—Whoever shall willfully and unlawfully conceal, remove, mutilate, obliterate, or destroy, or attempt to conceal, remove, mutilate, obliterate, or destroy, or, with intent to conceal, remove, mutilate, obliterate, destroy, or steal, shall take and carry away any record, proceeding, map, book, paper, document, or other thing, filed or deposited with any clerk or officer of any court of the United States, or in any public office, or with any judicial or public officer of the United States, shall be fined not more than $2,000, or imprisoned not more than three years, or both." (Barnes Federal Code, sec. 9825; R. S. 5403.)

"*Destroying records by officer in charge.*—Whoever, having the custody of any record, proceeding, map, book, document, paper, or other thing specified in the preceding section, shall willfully and unlawfully conceal, remove, mutilate, obliterate, falsify, or destroy any such record, proceeding, map, book, document, paper, or thing, shall be fined not more than $2,000, or imprisoned not more than three years, or both; and shall, moreover, forfeit his office and be forever afterwards disqualified from holding any office under the Government of the United States." (Barnes Federal Code, sec. 9825; R. S. 5408.)

These very drastic prohibitions show why it has always been necessary to have an act of Congress expressly allowing destruction of securities. There is no controversy as to the facts here; it is purely a question of law.

Great haste has accompanied the destruction of the bonds. This is illustrated by the conduct of Treasury officials in connection with the destruction of a certain large lot of duplicates which was the subject of special investigation for other reasons. The duplication amounted in money value to $133,000, face amount of the bonds, and about the same amount in the value of the coupons. The bonds were for $1,000 each and all of the 133 had come from one package (each package contained a thousand bonds) and most of them had been purchased by the Treasury from the War Finance Corporation. When information was sought from Treasury officials as to the duplicates concerned, there resulted an explicit refusal of these officials to obey the direct orders of the President of the United States contained in a signed letter which his representative presented. This information did not come to the committee from the representative, but was admitted in the testimony of one of the officials who so refused. The incident happened in August, 1922, when the bonds concerned had been destroyed and the information sought was from records only. Concerning most of these duplicates which have not been destroyed, the committee has affidavits of experts at the Bureau of Engraving and Printing, who state they believe them spurious. While this has been disputed, Treasury records show that $99,000 face amount of these same duplicates purchased from the War Finance Corporation were destroyed, and destroyed out of the regular order, on December 19, 1921, the same day that President Harding wrote the following letter:

DECEMBER 19, 1921.

MY DEAR MR. SECRETARY: I talked with you this morning over the telephone about suspending the destruction of bonds which have been exchanged for new ones, etc., and was greatly pleased to have your assurance that this destruction would be permanently suspended. I think this administration ought to take that course, as the surest manner of self-defense.

These bonds will not require any very extended storage space, and we will have a very valuable refutation of neglect on the part of this administration if these exchanged securities and other questionable cancellations are preserved for future reference and inspection.

I trust you will make the order a very explicit one and allow no variation therefrom.

Very sincerely,

WARREN G. HARDING.

The SECRETARY OF THE TREASURY,
*Washington, D. C.*

Notwithstanding this letter, destruction was continued until the President again, in April, 1922, demanded that it be stopped, when destruction was finally stopped. The letter of the Secretary of the Treasury of April 26, 1924, states:

"It is true that during the latter part of June, 1921, Mr. Brewer personally called on the Secretary of the Treasury and urgently suggested, among other things, that destruction be suspended. There were not at that time, however, any orders or instructions of any kind from the President on the subject of destruction, and the Secretary of the Treasury did not agree with Mr. Brewer that destruction should be stopped, nor did he issue any such instructions himself."

After June, 1921, there were about $10,000,000,000 worth of securities destroyed.

The statement of the Treasury Department in its letter of April 26, 1924, was that the 133 one-thousand-dollar duplicate bonds referred to above were erroneously listed. The bonds, however, had been destroyed, as have also most of those about which the Treasury makes a similar statement. This well illustrates how seriously the destruction of bonds may affect the question as to what is really outstanding.

The methods followed when the bonds were being destroyed show that, rather than a duplication of the public debt requiring a multitude of people, a premise to the conclusion of the Secretary of the Treasury that duplication resulted from innocent error, destruction, as practiced, offered opportunity for one or two men, and sometimes one man only, to recirculate the Government securities with little chance of detection by removing them from the packages destroyed. One man only certified to the account of $1,468,449,000 in securities (in violation of the regulations) which the destruction committee accepted in package form and said were destroyed. (See Treasury letter of April 26, 1924.) The committee also has originals of evidence of about $600,000,000 worth of additional securities similarly destroyed which were also likewise certified by one man only. The committee also hold in safe-deposit boxes about $500,000 worth of securities which the same destruction committee certified were destroyed in May of 1918.

The accounts covering the payment, retiring, recording, and destroying of securities must be thoroughly audited and the whole system of recording all securities be most carefully considered and revised.

11. Based upon the study during the consideration of this inquiry, the committee believes that the printing of securities should be completely divorced from the Bureau of Loans and Currency of the Treasury Department, which bureau issues and circulates Government securities, and likewise the bureau of audit of final recordation of payments should be completely divorced from the printing, engraving, and issuing departments. In order to effectively accomplish this and thus provide an additional safeguard, the committee recommends that the division of paper custody and the Bureau of Engraving and Printing be separate from the Treasury and function in a manner similar to that provided for the Government Printing Office, reporting direct to a joint committee of the House and Senate, and under the supervision of the director; and that the office of the Register of the Treasury, which audits and records the retirement of paid and canceled securities, should be also separated from the Treasury and likewise function directly under a joint committee of the House and Senate and under supervision of the Register of the Treasury.

Under this plan of operation the business of each of these offices will be carried on practically as at present, except that the Director of the Bureau of Engraving and Printing and the Register of the Treasury shall be responsible to Congress, in whom is vested the authority to make money and to whom accounting for same should be made. The Secretary of the Treasury would place all orders for printing and engraving of money and securities with the Bureau of Engraving and Printing; the Bureau of Loans and Currency of the Treasury Department would supervise the issue thereof under the direction of the Secretary of the Treasury; and the Register of the Treasury would receive and record paid and canceled securities. This would prevent any possibility of collusion in the printing and engraving, issue, or recordation and payment of securities.

12. In its relations with the committee the attitude of the Treasury has been constantly a defensive one rather than one of willingness.

SUMMARY

13. The evidence discloses:

1. That there has been duplication of bonds, some fraudulent, the proportion not yet determined;
2. That the report of the Treasury relative thereto is incomplete, contradictory, and evasive, and the testimony it offered to show innocent error was refuted;
3. That records have been falsified, the extent of which is unknown to the committee;
4. That indifference to duplications has been prevalent;
5. That legal remedies have been neglected in the payment of duplicates;
6. That destruction of bonds was conducted in haste and that destruction records are not dependable;
7. That the bonds were destroyed in violation of law, of regulations, and of presidential order and evidence of duplication thus removed;
8. That under a theory of economy evidence not destroyed has been rendered useless and the Government also thus deprived of its main safeguard against future fraud;
9. That the will of Congress has been overriden in the repurchase and sale of millions of dollars' worth of bonds;
10. That questionable methods were employed in handling these funds;
11. That substantial, actual losses to the Government have resulted; and
12. That the extent of these losses has been rendered uncertain by failure of records to agree.

Because of the ending of the life of this committee with the termination of the present Congress on March 4, 1925, the committee are turning over to the Congress, duly inventoried, all of the evidence in their possession, together with copies of the hearings and a copy of this special report. The committee desire to state in this connection that there is much evidence in the files of the Treasury Department, including the office of the Register of the Treasury, the Division of Loans and Currency, the Bureau of Engraving and Printing, and the Commissioner of the Public Debt, that should be maintained and made available at any time to the Congress or any designates on the part of Congress. The committee also desire to call special attention to the preservation of paid securities, both coupon and registered bonds and war-savings stamps and the coupons thereto attached and unattached, until Congress finally disposes of the subject of this inquiry.

The committee consider it absolutely essential that there be immediate restoration of the examination, comparing, and recording of coupons, a comprehensive audit of the public debt and all other matters covered by House Resolution 231, and that proper legislation be enacted extending the powers of the committee beyond the 4th of March in order that there may be an ascertainment through such audit of the amount of losses sustained by the Government, that necessary steps be taken to recover these losses, and to prevent in future the abuses herein outlined. This report is based upon the report of a subcommittee consisting of Mr. McFadden, Mr. King, and Mr. Steagall) except as to where it was modified by subsequent evidence), said report being submitted and approved January 7, 1925, and is hereto attached and marked "Exhibit A."

EDWARD J. KING.
HENRY B. STEAGALL.
W. F. STEVENSON.

MARCH 2, 1925.

EXHIBIT A

REPORT OF SUBCOMMITTEE OF SPECIAL BOND COMMITTEE

Your special committee appointed under House Resolution 231, Sixty-eighth Congress, first session, "To investigate the preparation, distribution, sale, payment, retirement, surrender, cancellation, and destruction of Government bonds and other securities," has had these various questions under its consideration since the adoption of the resolution, March 24, 1924, and is now in the midst of its inquiry.

It has been necessary to go into practically all the phases of the public debt, a stupendous question, and a great deal of time during vacation has been devoted to the work. Practically the continuous presence of the committee has been necessary since September 16 last. Hearings so far have been conducted in Washington and New York. Many witnesses, including Treasury officials, have been heard. Many others, including other officials of the Treasury, are to be heard.

Government bonds and other securities, the subject matter of the inquiry, are printed by the Bureau of Engraving and Printing on distinctive silk-fiber paper made at the paper mills, Dalton, Mass. They are issued by the Treasury proper principally through the Federal reserve banks to the other banks and the public. Some reach the public directly from the Treasury. After circulation the securities are retired or redeemed from the public and the banks generally through the Federal reserve banks and the Treasury, some coming directly to the Treasury. They are surrendered to the Register of the Treasury. Some reach the register through the Tresaurer of the United States and through Loans and Currency Division of the Treasury.

The annual report of the Secretary of the Treasury for 1924, filed with Congress, pages 76 to 81, refers to the subject of duplication of bonds, and in a "letter" to the President of the United States dated April 26, 1924, the Secretary of the Treasury submitted a special report consisting of about 200 pages of printed text and tabulated matter purporting to prove there had been no duplication of the public debt and that charges to this effect were wholly unfounded.

The committee, of course, gave most careful consideration to these reports. From its examination of Treasury reports and records and the testimony of Treasury officials and employees, your committee finds that:

1. Duplicate bonds amounting to 2,314 pairs and duplicate coupons amounting to 4,698 pairs, ranging in denomination from $50 to $10,000, have been redeemed to July 1, 1924—that is, two bonds and two coupons bearing the same identical number. The statement as to coupons includes only one for each bond. If the various duplicated coupons of the same bond are included, the number would be greatly increased. Duplications resulting from the slipping of the numbering machine are negligible and inconsequential. Some of the duplications have resulted from error and some from fraud. The proportion has not been determined. The extent of the duplications is also uncertain from the record as far as it has gone and an important part of the work by which duplication is detected was stopped by the Treasury in July, 1924, referred to later.

2. Duplicate payments of the same identical bonds, stolen from Treasury vaults by employees and again circulated, have been made in frequent cases. The extent of the thefts is rendered uncertain by inexact methods and faulty accounting.

3. The report of the Treasury embodied in the letter from the Secretary to the President dated April 26, 1924, on the subject of duplication of bonds, is incomplete, contradictory, and evasive and the main part of the proof offered to show the duplication resluted from error was demolished by the committee discovering within the Treasury Department many of the very bonds which the Secretary's report claimed had never been printed, and on the alleged nonexistence of which he justified the payment of the duplicate bonds, his theory being that, because the numerical register for recording surrendered bonds showed open spaces beside certain numbers, it could be presumed those numbers had never been printed but that two bonds bearing the same number had been erroneously printed in their stead and could thus be "allocated." The committee discovered that some of these "allocated" bonds which had been paid had been in the Tresaury for four years at the time the Secretary's report of April 26, 1924, told the President they did not exist. The committee also discovered that other such bonds are continuing to appear and are being paid.

4. The possibility of a proper balance of the books is precluded by matters shown by the Treasury records.

5. Whether the major duplication so resulted therefrom or not is yet to be determined, but it is clear there was opportunity for fraudulent wholesale duplication of Government bonds at the Bureau of Engraving and Printing, the Division of Loans and Currency, and the register's office, and that the opportunity was so created by the abandonment of regulations formerly designed as safeguard and was encouraged by loose practices in bookkeeping and accounting methods and that some important frauds have resulted from these practices.

6. Falsification of record has occurred as to distinctive silk-fiber paper in the Division of Loans and Currency, in the handling of securities in the Bureau of Engraving and Printing, and in the destruction records.

7. Little or no attention was paid to duplicate bonds when they were received in the Treasury and known to be duplicates. Employees generally seemed to have prejudged the case and decided that duplication resulted from error. This attitude is so well illustrated by the questions of Congressman Strong of the committee, answered by Mr. Speelman, Register of the Treasury, that they are herewith incorporated:

"Mr. STRONG. It just strikes me, Mr. Speelman, as a very peculiar situation, where a great department is receiving bonds after payment, for cancellation, and they discover that a duplicate number has been paid, that there is not more investigation and more decision about it than simply to report it and then forget about it. If forces the conclusion that if Mr. Brewer had not dug this matter up there never would have been any investigation. That seems to me to be a situation that I should hate to see established.

"Mr. SPEELMAN. Well, that seems to have been the policy of the department.

"Mr. STRONG. Then the presumption is that when duplicate numbers come in they do not care; they just presume that everything is all right, and the people are not protected, especially the Treasury. * * *

"Mr. SPEELMAN. Well, I suppose that the Treasury Department would be interested of course.

"Mr. STRONG. Let me make my thought plain. I get my checks back from the bank. I number every check as I issue it. If I discover two checks numbered alike, I would immediately make an investigation to see whether or not I had issued both checks. If that came up month after month and day after day, I would be put on inquiry as to why I or the person that numbered those checks for me was making a mechanical error, and I would immediately start some investigation about it. And it does seem to me strange that in a great department like the Treasury Department of the United States, where they are issuing these bonds running up into the thousands when they find duplicate numbers when they come to pay them—the number being put upon the bond for its identification—when they find two bonds numbered alike, and that goes on time after time, it seems to me rather remarkable that you should say that you simply write a letter notifying the Secretary's office that they are duplicates, and that they never come to make any inquiry or pay any attention to it until an investigation is started by the Congress of the United States or some one from the Department of Justice. It seems to me the department itself would have immediately started an investigation. I am rather surprised to have you make that admission."

8. The Government is not liable for the payment of fraudulent bonds or coupons, for example, coupons that have been altered to secure earlier payment of interest, or for bonds that have been sotlen prior to issue, even though regularly printed under Government authority or which have been paid and stolen after payment and again passed through regular channels for repayment as has been the case as disclosed by Treasury records.

9. Protection against fraudulent duplication of bonds and coupons, counterfeits, and stolen bonds and coupons, etc., provided by the courts can not be availed of unless examination at Washington is prompt. By a change in last year's appropriation bill, about which the Treasury was consulted, examination, comparing, and recording of coupons was dispensed with. The committee considers this examination, comparing, and recording is the Government's principal safeguard against duplication, counterfeiting, and other fraud in coupons whose cumulative value is the same or greater than the whole public debt. This should be restored immediately.

10. In the repurchasing on the market through the bond-purchase fund, the sinking fund, etc., various practices have been followed which must be corrected. For example:

(*a*) A preference in purchasing hundreds of millions of dollars' worth of certain issues as high as $98 when other issues were selling as low as $86 has made its bonds cost the Government about $60,000,000 more than they otherwise would.

(*b*) Instead of buying the bonds directly the Treasury employed the War Finance Corporation for such purpose. And instead of promptly turning into the Treasury the bonds purchased the War Finance Corporation accumulated great quantities of bonds, held them, and collected altogether nearly $28,000,000 in interest on them from the Treasury. And though the Ways and Means Committee in framing the third Liberty loan act changed the Treasury's bill in order to prevent the Treasury from selling bonds below par the War Finance Corporation carried on an extensive trading in these bonds on the stock exchange in "wash" sales, frequently selling bonds on the market at less than cost and selling the same issue of bonds on the same day at several dollars less per hundred to others than they sold them to the Treasury, and, furthermore, often sold to the Treasury at a higher price than what the bonds had cost. Mr. Eugene Meyer, jr., managing director of the War Finance Corporation, and Messrs. R. C. Leffingwell and S. Parker Gilbert, Assistant Secretaries of the Treasury, settled on the price which the Government paid for over $1,894,000,000 worth of bonds bought from the War Finance Corporation, the basis of which price was not the market price, was not the cost of the bond, and was not disclosed by the correspondence. Mr. Meyer stated that he and Mr. Leffingwell agreed to the price and it was simply an arbitrary figure set by Mr. Leffingwell (as to the bonds bought from the War Finance Corporation prior to June 30, 1920, 99 per cent). The managing director of the War Finance Corporation in his private capacity maintained an office at No. 14 Wall Street, New York City, and, through the War Finance Corporation, sold about $70,000,000 in bonds to the Government and also bought through the War Finance Corporation about $10,000,000 in bonds and approved the bills for same in his official capacity.

All transactions of the War Finance Corporation must be thoroughly audited to ascertain the manner by which and the parties through whom and to whom the Government lost the money which the record proves was lost. It was to prevent just such questions being raised that Congress in its widsom long ago prohibited Government officers from having any interest, direct or indirect, in transactions which they were called upon to approve and for the same purpose was written into the War Finance Corporation act the following. Section 3 states:

"* * * No director, officer, attorney, agent, or employee of the corporation shall in any manner, directly or indirectly, participate in the determination of any question affecting his personal interest, or the interests of any corporation, partnership, or association, in which he is directly or indirectly interested."

And section 300 states:

"* * * That whoever willfully violates any of the provisions of this act, except where a different penalty is provided in this act, shall, under conviction in any court of the United States of competent jursidiction, be fined not more than $10,000 or imprisoned for not more than one year, or both."

11. Since discontinuance of the War Finance Corporation in buying and selling bonds, the practice of selling bonds on the market has continued, although Congress in the third Liberty loan act, as passed, refused permission to the Treasury for the same. This and also purchasing bonds above par with the command of funds amounting to hundreds of millions of dollars annually should be condemned and the whole general scheme thoroughly revised. The dates of purchase as given by the Secretary of the Treasury which would have shown that about $24,000,000 had been paid by the Government for bonds in excess of the highest market rate for the various days on which it was alleged that the purchases were made were found to be incorrect. It was also found that the dates given by the War Finance Corporation and the Federal reserve bank did not agree and that the records for the same party also vary as to dates of purchase. For example, the dates furnished by the Federal reserve bank statements were sometimes given as the date of delivery of the bonds, sometimes the date of the transaction, and sometimes the date on which the transaction was reported. The dates given by the records of the War Finance Corporation were equally confusing. One transaction in the books of the War Finance Corporation has journal entry as of November 15, 1918, a subentry in the journal as of November 12, the detail sheet is dated November 11, and the dates of purchase given as November 8 and 9. The market prices varied each day. Only a complete audit will disclose how nearly correct is the loss of $24,000,000, which the dates given by the Secretary of the Treasury show.

12. Destruction of bonds was in violation of law, in violation of presidential order, and in violation of the Treasury Regulations (made when authority to destroy existed). Authority to destroy bonds was repealed in 1919. Since then any such destruction was in violation of the United States Criminal Code. The committee has evidence that the destruction was pushed with determination and haste.

The methods followed in destruction show that rather than duplication of the public debt requiring a multitude of people—a premise to the conclusion of the Secretary of the Treasury that duplication resulted from innocent error—destruction, as practiced, offered opportunity for one or two men and sometimes one man only to recirculate the Government securities with little chance of detection. One man only was permitted to certify to the count of $1,468,449,000 in securities (in violation of the regulations) which the destruction committee accepted in package form and said was destroyed. (See Treasury "letter" of

April 26, 1924.) The committee also has originals of evidence of about $600,000,000 worth of additional securities similarly destroyed which were also counted by one man only. The committee also holds in safe deposit boxes about $500,000 worth of securities which the same destruction committee certified were destroyed in May of 1918.

The accounts covering the payment, retiring, recording, and destroying of securities must be thoroughly audited and the whole system of destroying all securities be most carefully considered and revised. Destruction of any securities and any records pertaining thereto should, of course, be prohibited until the audit is completed and the committee completes its investigation and makes its recommendations relative to this subject.

13. From its consideration of the subject, the committee is thoroughly convinced that the printing of securities should be thoroughly divorced from the issue of same and the issue and circulation likewise thoroughly divorced from final retirement. In order to effectively accomplish this, and place the handling of securities on an efficient basis and one that is above reproach, the division of paper custody and Bureau of Engraving and Printing, the latter of which prints the securities, and the office of the Register of the Treasury, which retires them, should be taken over and placed under a joint committee of the Senate and House after the order of the present provisions for the Public Printer.

15. In its relations with the committee the Treasury Department has been constantly on the defensive and, while its letters have professed a readiness to assist the committee in the inquiry, its unwillingness to really cooperate has been manifest.

16. The committee has stated herein that the evidence discloses:

"1. That there has been duplication of bonds, some fraudulent, the proportion not yet determined;

"2. That the report of the Treasury relative thereto is incomplete, contradictory, and evasive; and proof it offered to show innocent error was demolished;

"3. That records have been falsified; extent of same unknown;

"4. That indifference to duplications has been prevalent;

"5. That legal remedies have been neglected in the payment of duplicates;

"6. That destruction of bonds was prosecuted in haste and that destruction records are not dependable;

"7. That the bonds were destroyed in violation of law, of regulations, and of presidential order and the best evidence of duplication thus removed;

"8. That, under a theory of economy, evidence, not destroyed, has been rendered useless and the Government also thus deprived of its main safeguard against future fraud;

"9. That the will of Congress has been overridden by connivance in the repurchase and sale of millions of dollars of bonds;

"10. That questionable methods were employed in handling these funds;

"11. That substantial actual losses to the Government have resulted; and

"12. That the extent of these losses has been rendered uncertain by failure of records to agree."

Because of these facts, the immediate restoration of the examination, comparing, and recording of coupons, a comprehensive audit of the public debt and all other matters covered by the resolution (231), and an extension of the powers of the committee by legislation beyond the 4th of March are considered absolutely essential in order that the committee complete its investigation and make recommendations for correcting the abuses, to the Sixty-ninth Congress or as soon thereafter as possible, ascertaining through the audit the extent of the losses suffered by the Government and take steps to recover same.

17. The committee will submit bills to cover the necessary legislation to carry out the various purposes referred to herein and recommends favorable consideration of same by Congress.

## STATEMENT BY MR. M'FADDEN

I have withheld my signature from the report of the special committee which was prepared, signed, and presented by three of its members, for the reason that the report, under the exigencies of the situation, was, in my judgment, presented prematurely, and for the reason that had its presentation not been forced by the approaching end of this Congress, it might have had a different tenor and different recommendations.

While the committee has proceeded as expeditiously as circumstances permitted, and has progressed satisfactorily in its inquiry and investigation to the time of the conclusion of such inquiry and investigation, its hearings were necessarily much curtailed and finally suspended to permit a report to be made to the present Congress. There has not been opportunity to hear many of the witnesses available to it, and the committee did not have time or opportunity to call or hear all of the witnesses offered by the Treasury Department, or permit cross-examination by that department of witnesses previously heard, a courtesy which, in my judgment, should be fully accorded to it. In consequence of this, the investigation was suspended before the committee had exhausted the evidence and data available to it, and, of course, its conclusions and recommendations are not as authoritative as if they had followed an examination of a wider scope.

It was my desire that the authority of the committee be continued for a sufficient length of time to accord opportunity for a full and complete hearing on this most important subject, but, such authority having been refused, I can not subscribe to a report which, under the necessities of the case, is incomplete and which, if hearings had been continued, might have stated different conclusions, and, necessarily, different recommendations.

LOUIS T. MCFADDEN.

STATEMENT OF MR. STRONG, OF KANSAS

Three members of committee of five signed the majority report and the chairman has filed a separate report. I do not agree with the conclusions as set forth in the majority report, nor do I concur in the statements on which such conclusions are based. I find that the evidence presented to the committee does not substantiate the statements and conclusions set forth in the majority report.

There have been duplicate-numbered bonds issued by the Treasury, but I do not find that these bonds were spurious or fraudulent nor that the Government did not receive full payment therefor.

I find that there were errors made and that some petty thieving occurred. I find, however, that such errors and such petty thieving were not more than could be expected under the volume of work and the general war-time conditions that prevailed. In fact, it is remarkable that, in handling over $140,000,000,000 in bonds and other securities from the beginning of the war up to the present time, the Treasury has sustained so few losses. This achievement deserves commendation rather than criticism.

The Secretary of the Treasury has repeatedly stated that these charges made in the majority report are unfounded and has ever so insisted when before our committee. It should be noted in this connection that the majority report deals with matters which occurred prior to the time that the present Secretary of the Treasury took office and that he would have no personal or political reason for defending any such charges as made if they were founded on fact.

Mr. Brewer, who produced much of the testimony upon which the majority report is based, has been engaged on this general matter for almost four years without any appreciable result. His investigation has cost the Government hundreds of thousands of dollars in time, labor, and other expenses, and your select committee has already spent $10,000 in this investigation. On the basis of the evidence presented, to continue the committee and to have an audit as requested by the majority report would be nothing less than a great waste of public moneys. If there were fraud, as charged, the public interest would demand an audit. There has been no fraud and there is, therefore, no occasion for an audit. A complete audit would take possibly 10 years with an inestimable amount of expense.

The recommendations for the separation of the register's office, the Bureau of Engraving and Printing, and the Division of Paper Custody from the Treasury Department, making them an independent establishment by act of Congress, are ridiculous. Such recommendations are not justified by any evidence that has been presented before your committee.

I could at great length point out how unfounded are the conclusions as expressed in the majority report. I feel that this is unnecessary, but it is perhaps well to call your attention to the following as an example: Under the heading "Destruction of evidence" in the majority report an opinion is rendered on the law in relation to destruction, holding that the Secretary of the Treasury has no authority to destroy securities. The Secretary of the Treasury has always had such authority and the Attorney General of the United States has in a recent written opinion conclusively confirmed the Secretary's authority.

Respectfully submitted.

JAMES G. STRONG.

Representative McFADDEN. I would like also to place in the record a letter of Harold F. Haynes, a member of the Bar of the District of Columbia, who is engaged in this particular phase of the study of this committee, and who, under date of January 7, reviewed this unprinted letter and has presented this matter.

Senator CAREY. Is that letter just his conclusion about the matter?

Representative McFADDEN. Yes.

Senator CAREY. That is a conclusion that he has drawn. I do not think it is fair to insert that in the record.

Representative STRONG. I suggest that this be a complete report of that committee, including the minority report.

Senator CAREY. Yes; you will furnish us with the letter, Mr. McFadden?

Representative McFADDEN. Yes; I will furnish that.

Senator CAREY. Have you a memorandum of the questions that you wish asked of these witnesses?

Senator WAGNER. Since a good deal of the testimony that Mr. McFadden has given has been a matter of opinion, I should like to ask Mr. Strong what his opinion is of Mr. Meyer as a result of his contacts and investigations as a member of the Banking and Currency Committee of the House.

Representative STRONG. I have served for 12 years on the Banking and Currency Committee of the House, and I thought that the appointment of Mr. Meyer was a very fine one. My thought was that he was unusually well equipped for the position. He had been in the banking and bonding business prior to the war. He had given it up when the Government went into the bonding business and was selected by the Treasury to try to stabilize the bonding issues to sell their bonds, and thereby gathered a great deal of experience with regard to such matters.

He was the chairman of the War Finance Corporation, in which legislation I was very much interested when it went through our committee in the House, and loaned a matter of two hundred or more million dollars that was of great help in the marketing of agricultural products throughout the country and lost no money thereby, and then became commissioner of the Farm Loan Board, with its 12 farm-loan banks. This board had supervision also of the joint-stock land banks. I have been very much interested in the Federal land banks and the legislation that passed through our committee for them. I took immediate interest after Mr. Meyer became commissioner, and I felt that he did a wonderfully good job, if I may use such term, in straightening out that system and helping it and making it serve the purpose for which it was created. With all this wealth of experience behind him, I felt that he was well qualified to be advanced to the position of governor of the Federal reserve system.

Senator FLETCHER. Do you not know that the loaning power of those banks had decreased vastly from the time Mr. Meyer became commissioner until he resigned?

Representative STRONG. The loaning power?

Senator FLETCHER. Yes.

Representative STRONG. Certainly. That is what we want.

Senator FLETCHER. The loaning power decreased so that they could not make loans as applied for, desired, and needed?

Representative STRONG. I do not think that is true. I understood you to say increased, not decreased. There has never been a time when the farm loan banks in our country since 1922 have not had abundant funds. They have always been able to sell their bonds at fair prices.

Senator FLETCHER. Do you mean to say now that the joint-stock loan banks in your part of the country are making loans as they did years ago?

Representative STRONG. I am not speaking of the joint-stock loan banks, but the Federal farm banks, which I think I can say are in sound condition and have been in a position to meet all loan requirements. I was a member of the committee with my chairman here who visited Federal farm banks over the United States, and I know that our own bank at Wichita has ample funds.

Representative McFADDEN. May I correct you there? You and I never visited the Federal Farm Loan banks. We visited the Federal Reserve Banks.

Representative STRONG. But at almost each city where there was a Federal Reserve bank there was a farm-loan bank, and we visited them and had their experts and officers show their condition to our committee.

Senator FLETCHER. There is no such thing as a farm-loan bank. Of the Federal Land Banks there are twelve in as many districts in the country, but you do not have a Federal Land Bank wherever you have a Federal reserve bank.

Representative McFADDEN. In view of the statement that has been made by Mr. Strong as a member of the committee, this committee will be interested in certain developments which were disclosed in those hearings in reference to the books of the War Finance Corporation while they were before the committee, and I direct your particular attention to that fact, that while these books of the War Finance Corporation were daily being brought before our committee by the people who were custodians of them and taken back to the Treasury at night, the committee discovered that alterations were being made in the permanent records. That was verified by the treasurer, Mr. Berklin, who was called before the House committee. Rumor has it now that much of these books has been rewritten. As to that, the committee should have full information.

But this question has been raised here now; and, inasmuch as it has been raised, you should have the books before you, and a complete audit of the War Finance operations. You should have the facts and know the profits or losses made in the transactions in Government securities. It has a bearing on the final results of the operations of the War Finance Corporation.

Representative STRONG. I think I should say to this committee that so long as my chairman and I are so directly opposite, that the same situation existed in our special committee. (The three other members of the committee were also opposed to my position.) I think I should also say that I never had any business connection with Mr. Meyer or any one with whom he is associated.

Senator BROOKHART. On that proposition the newspapers say you were a candidate for membership on the Federal Reserve Board yourself. Is that correct?

Representative STRONG. I was suggested for the Federal Reserve Board by the Senator from my State.

Senator BROOKHART. Naturally that makes you friendly to the big boss.

Representative STRONG. It does not make me friendly to the big boss because I do not think the big boss favored my nomination. In fact, I am quite sure that he did not.

Senator BROOKHART. But that is what you would like to have.

Senator GOLDSBOROUGH. This is getting down to personalities. I move that that be stricken out of the record.

Senator BROOKHART. Mr. Chairman, that is material to the record, and it was not personal either. I think that the Senator has gone just a little too far in that regard. I want to know simply the facts.

Representative STRONG. I am perfectly willing that the Senator should ask anything that he wants to. In fact, I believe that if Mr. Meyer had favored my nomination I would have been nominated.

Senator BROOKHART. I believe that, too.

Senator GOLDSBOROUGH. Then you are together.

Representative STRONG. So I am not over persuaded in my judgment of his ability because of personal obligations.

Senator BROOKHART. You say that he loaned $200,000,000 in the War Finance Corporation. That is the maximum that was loaned at one time?

Representative STRONG. Certainly.

Senator BROOKHART. Was it not about $180,000,000?

Representative STRONG. I think it was about $200,000,000.

Senator BROOKHART. And the capital stock of the corporation was $500,000,000?

Representative STRONG. Yes, sir.

Senator BROOKHART. So in aiding the farmers they were not able to use even half of the capital stock value?

Representative STRONG. I went over my district and urged every organization to apply for funds that needed them, and I never found one single person or bank that applied that did not get the money.

Senator BROOKHART. That might be true in your district.

Representative STRONG. It was true in my district.

Senator BROOKHART. What was done with the rest of this capital that was not loaned to the farmers?

Representative STRONG. I do not know.

Senator BROOKHART. That is what they used to speculate in these Government bonds, is it not?

Representative STRONG. I do not think so.

Senator BROOKHART. You do not know about that?

Representative STRONG. I do not know.

Mr. MEYER. For the information of the committee, I will say that while agricultural credits were being administered by the corporation there were no dealings in bonds in the same way.

Senator BROOKHART. I have several questions to ask Mr. Meyer later on that proposition when he comes on the stand.

(Thereafter, Representative Strong requested that his remarks in the House on the Report of the Special Bond Committee be made a part of this hearing, which remarks were as follows:

[Extension of remarks of Hon. James G. Strong, of Kansas, in the House of Representatives Tuesday March 3, 1925]

On the Report of the Special Committee Appointed Under House Resolution 231 "To Investigate the Issuance, Sale, Payment, and Cancellation of Government Securities"

Mr. Strong of Kansas. Mr. Speaker, because of the objection by Mr. King, of Illinois, who signed the majority report of this committee, to the request by Mr. Longworth, our party leader, that I should address the House on this subject, I am under the necessity of taking advantage of the privilege granted me by the House to extend my remarks.

This matter has been the subject of newspaper publicity and assumes vital importance unless the truth is known to my fellow Members and the country.

A Washington newspaper on February 21 carried headlines that Liberty bond duplication had been confirmed, and dealt at length with a report that was to be filed by the select committee, of which I am a member, appointed under House Resolution 231, to investigate the preparation, distribution, sale, payment, retirement, surrender, cancellation, and destruction of Government bonds and other securities. I was astounded that any member of a committee of this House, in violation of its tradition and precedent, should broadcast its report before it was formally filed with this House. It was done without my knowledge, as have been many other things by the same committee. Three members of the committee have now filed a report, the chairman a separate report, and I have filed a minority report disagreeing entirely with the majority's views.

Four years ago this March Mr. Brewer, the investigator of the raincoat and harness cases which blew up in court and were the subject of severe condemnation by the Federal courts, started on an investigation of what was charged as a wholesale duplication of the public debt and a conspiracy to defraud the Government. The matter was to a large extent interwoven with the dismissal from the Bureau of Engraving and Printing of a number of Government employees, all of whom, except those who died or those who refused to accept their old positions, have been reinstated. President Coolidge in October, 1923, through Mr. C. G. Washburn, of Worcester, Mass., who made a thorough investigation of the matter as the direct representative of the President, advised Mr. Brewer, in order to bring the matter to a conclusion, that he would be permitted to continue his investigation until January 1, 1924, and that his report must be filed by January 15, 1924. Mr. Brewer filed his report in accordance with the President's direction. It was referred to the Treasury, investigated, and replied to in a letter to the President dated April 26, 1924, from the Secretary of the Treasury, a most convincing answer. The matter, however, did not rest there, and Mr. Brewer, through some friends in this body, gained the attention of this House, which, knowing little of the real facts, saw fit to authorize a select committee to investigate his charges.

I have great admiration for my colleagues on the committee. They are able legislators, and I do not want to criticize them; but it has always seemed to me that the proper way to investigate any subject, and especially one that is highly technical, is to examine at first hand the operations involved. This was urged by the Treasury Department in two letters to the committee, and I myself suggested to the committee that it visit the Bureau of Engraving and Printing and the various divisions or offices handling the operations under investigation. This the committee did not do. My fellow members of the committee probably are better able than I to grasp these technical matters from the air or from Mr. Brewer. But so far as I am concerned, I prefer first-hand information. Accordingly, I visited the Bureau of Engraving and Printing and other offices in the Treasury Department, carefully studying the various processes in the printing, examination, counting, and so forth, of Government bonds and securities, and took a stenographer with me to make notes as I went along. I found that each sheet of silk-fibered paper is repeatedly checked and counted during the process through which it passes until it comes out as either currency or bonds. In the case of currency, 16 hand and 6 mechanical counts are made; in the case of bonds, 21 counts are made. So duplications of currency, notes, or bonds is reduced almost to an impossibility. I learned that duplicate-numbered bonds were possible through sticking, slipping, or breaking of numbering machines, and errors through hand make-up numbering machines; and especially so during the war period, when great quantities of bonds were being printed and issued, and when the personnel in the Bureau of Engraving and Printing was increased from 4,000 to 8,000, forcing the employment of new and untrained people. On the basis of my examination, I am firmly convinced that duplicated-numbered bonds were the result of errors, pure and simple, and that while large quantities were caught before they reached the public, some duplicate-numbered bonds did get into circulation, but that the Government received full payment for each note or bond issued. Secretary Mellon stated before the committee that there were no spurious or fraudulent bonds issued, that he had caused a thorough examination to be made, and was prepared to stand by his position; and when you consider that such bonds were not issued during his administration of the Treasury, nor by an administration of his party, it must be acknowledged that his conclusions are without prejudice and that of an honest as well as an able man.

The committee has shown the Treasury very little of the evidence produced before it, and did not give the Treasury an opportunity to cross-examine witnesses, notwithstanding the promise of the committee that this would be done. I protested that this was not the property way to conduct a fair investigation, but regardless of the failure of the committee to observe the natural proprieties of a fair investigation I do not find any basis for the charge of wholesale duplication of the public debt and fraudulent issue of securities.

True, there some errors! True there was petty thieving! What of it! What did it amount to? Nothing more than could be expected in the rush and enormous volume of war-time work. The majority report states that bonds which had been stolen were presented and paid a second time. How much? Thirteen thousand one hundred dollars. A loss of but $13,100 out of over $172,000,000,000 of securities handled. A record not to be critized but to be commended. Would not any bank in this country be pround of such a record? If theft losses by banks in the handling of securities were as small proportionately as those sustained by the Government, the banks would cease to carry insurance and the insurance business would be ruined. Some dates on coupons altered to secure earlier payment! Yes! A few; they were good coupons, and their payment did not duplicate the debt. Why, gentlemen, if there were a duplication of the public debt, would it not reflect in the interest the Government has had to pay since these loans were issued? As a matter of fact, the Government has never paid the interest it was supposed to pay. On June 30, 1924, more than $56,000,000 of interest due had not been called for; the coupons have not been presented. The charge is ridiculous. Flasification of records. No. I found no evidence to support such finding. Shortage in silk fiber paper? Yes; 113¼ sheets of Liberty bond paper were found short by a Department of Justice Committee, which made an audit of the Bureau of Engraving and Printing. All the sheets lost were uncompleted work and meant a loss of but a few cents a sheet to the Government. Some loss out of 97,000,000 sheets of bond paper handled!

Let us see what this Department of Justice committee did. It found that there were some sheets of distinctive paper short and some sheets of distinctive paper over. There were two classes of paper—money paper and bond paper. If the sheets had been completed, they would have had a money value. So the committee in its report assigned to the various sheets in process of printing the money value they would represent if completed. The committee offset some of the sheets that were over against the sheets that were short. In the money paper there was a shortage of 686 sheets, but the money value assigned represented a theoretical overage of $11,500. On the other hand, in the bond paper the shortage was 113¼ sheets, and the money value assigned represented a theoretical shortage of $690,000. However, there was an excess of 204 balnk sheets of overs to which the audit committee did not assign any money value. They did not know what denomination of bonds they would have been used for. If $10,000-bonds, six to a sheet, making $60,000 a sheet, we would have a theoretical value of $12,240,000 in overages, or the same condition which applies in the money sheets. The whole thing is entirely fictitious, purely theoretical, so far as money value is concerned, as the losses did not occur on completed securities and the incomplete sheets were worth only a few cents a sheet.

My colleagues on the committee conferred upon me the great honor of mentioning me at length in its report, for which I thank them. Such mention was in connection with the testimony of the Register of the Treasury. It dealt with the degree of attention the Treasury gave to duplicate-numbered bonds when discovered. I must say that I was surprised at the lack of knowledge of the Register of the Treasury as to what was done with respect to duplicate-numbered bonds coming into the department. True, the Treasury did not get excited about duplicate-numbered bonds when it knew they had been paid for, but its lack of excitement certainly does not prove the existence of fraud or duplication of the debt.

The committee gave considerable space in its majority report to what is known as allocations of numbers. Possibly this is due to the fact that the term "allocation of numbers," as used in this connection, is not clear to the uninitiated. There is nothing mysterious about it. The statement that some of these allocations were not correct is true. It is not expected that they would be. The matter has so little bearing on the alleged duplication of the public debt and would require such a lengthy explanation to make it clear to the Members of the House that I will not bore you with the details. It is sufficient to say that it can be entirely disregarded in connection with any discussion of the question of duplication.

There are two points that require some mention. One is the discontinuance of the assortment and recordation of interest coupons. This discontinuance was the result of the action of Congress, and the gentleman who is chairman of the Committee on Appropriations stated on the floor of the House that he was responsible for cutting out the appropriation for this work. He was undoubtedly right in his action as the Bureau of Efficiency and several other committees which have examined into the matter have reported that it was a costly and useless procedure and did not add to the protection of the Government.

The second point is the authority of the Secretary of the Treasury to destroy securities. The majority report renders an opinion on the law in relation to destruction, holding the Secretary of the Treasury has no authority to destroy securities. They are good lawyers, but it so happens that the Attorney General of the United States has held otherwise. After considering the various statutes cited by the majority report, Attorney General Stone says in conclusion:

"It is my opinion, therefore, that the Secretary of the Treasury is authorized, under the provisions of sections 161 and 251, Revised Statutes, to make regulations and issue instructions to his subordinates relative to the disposal to be made of paid canceled notes, securities, and other obligations, including Government bonds, paid, redeemed, exchanged, or received, retired, and canceled, and if, in his sound discretion, he deems the destruction of such bonds and other securities to be for the protection of the United States from fraud and loss he may legally order that the same be destroyed after proper record thereof has been made."

So far as the Liberty bond transactions are concerned, the majority report appears to a casual reader to make the charge that the Government has in some mysterious way lost $24,000,000 owing to certain purchases and sales made by the War Finance Corporation. If you analyze it carefully, of course, the report makes no such charge. It merely appears to do so. Upon a careful reading of the report the whole matter dissolves into nothing.

The War Finance Corporation, as is well known, is a corporation which was organized under a special act of Congress to finance certain industries "necessary or contributory to the prosecution of the war," and to buy, sell, and deal in obligations of the United States. All of its capital stock is owned by the United States Treasury. In legal form it is a corporation, but in substance it is no more than a branch or agency of the Treasury. The Secretary of the Treasury is the chairman of its board of directors, and its funds are kept on deposit without interest in the United States Treasury.

During the last few months of the war and for about a year and a half thereafter it was one of the duties of the War Finance Corporation to conduct extensive operations in the purchase and sale of Liberty bonds with a view to stabilizing the market to the extent that circumstances permitted. The majority report seems to carry the suggestion that the select committee discovered this fact, but so far as I can see there has never been any secret about it. When the bill creating the corporation was under consideration Secretary McAdoo described in detail before the Finance Committee of the Senate and substantially to the same effect before the Ways and Means Committee of the House what the corporation would be expected to do. I quote from his testimony of February 8, 1918.

"Any attempt to peg the price of Liberty bonds at par would be unwise and subject to legitimate criticism as turning the Government's long-term 20 or 25 or 30 year bonds into demand obligations. * * *

"It is highly desirable that violent and unnecessary fluctuations in price should be avoided and that all possible measures should be taken to stabilize the price of Liberty bonds. The War Finance Corporation would be able, I believe, to stabilize to a large extent the price of Liberty bonds. It is well known that a comparatively small buying power will not only discourage those speculatively or viciously disposed persons who might desire deliberately to depress the price of Government bonds but would furnish added impetus to any upward movement in the price. * * *

"The purpose I have in view, under this subdivision (giving the corporation authority to buy, sell, and deal in bonds and obligations of the United States) of the proposed act, is simply to permit this corporation to act in any circumstances that may develop, to such an extent as may seem wise in steadying the market for Government bonds. * * *

"The corporation will have the power * * * to buy and to sell Government bonds, so that if at any time it is deemed desirable to go on the market and buy some Government bonds it could do so, and sell them again. It is intended to be merely a stabilizing power and is not for any other purpose."

What does stabilization of the Liberty bond market mean? As Secretary McAdoo pointed out, it does not mean that the price of Liberty bonds could or should be pegged at par or at any other fixed price. All it means is that violent and unnecessary fluctuations, which frighten and discourage small holders, should be avoided either in the Liberty bond market as a whole or in the different issues. It involves buying in the open market whenever there is a sudden flood of selling orders, and selling when the market recovers and there is an excess of buying orders. It means keeping in constant touch with the market and acting as a balance wheel and a stabilizer.

In the course of its operations the War Finance Corporation bought vastly more bonds than it sold in the open market. The reason for this is that the United States Government has been most of the time a heavy purchaser of its own obligations. Under authorization of Congress, it has bought for various sinking funds and bond purchase funds, for the Postal Saving system, for the Alien Property Custodian, and for investment of proceeds of repayments on foreign government obligations or of the Federal reserve franchise tax.

Since the War FinanceCorporation, by act of Congress, was especially intrusted with the authority to deal in Government obligations in the open market, and was equipped to do this very thing, while the Treasury was not, it was the natural thing for the Treasury to use the corporation in making these purchases, and from time to time the Treasury took over the bonds bought, calling upon the War Finance Corporation to deliver them out of the bonds which the corporation had in its treasury as a result of its stabilizing operations. At what price should these bonds be delivered to the Treasury? They might have been delivered at the market price on the date of delivery. It was thought best, however, to have the War Finance Corporation handle the whole matter at cost without taking either a profit or a loss. The purchases and sales, of course, covered a long period, but the idea was that after the last bond had been delivered to the Treasury, the Treasury would have paid to the corporation exactly the net cost to the corporation of the whole operation, without a cent of profit or loss.

It was necessary to devise some simple mechanism by which this result could be achieved. The object, I have said, was to have the transactions as a whole carried on at cost, but whenever a bond or a block of bonds was transferred to the Treasury, it was necessary for accounting purposes to set a price on them. For convenience, the price selected was the approximate average book cost of all the bonds of that issue in the corporation's treasury on the date in question. As a matter of dollars and cents to the Treasury, the exact price set on a particular bond was of no importance, as the price was at once reflected in the book cost of what was left. If the tentative price on a particular bond was above the average cost, the book cost of the balance was automatically reduced by the amount of the excess; if it was below the average cost, the book cost was correspondingly increased.

The result would be that when the whole business was wound up the Treasury would have paid the corporation exactly what the operations cost the corporation. In other words, the financial result of the operations would have been exactly the same as if the powers in question had been exercised directly by the Treasury without the intervention of a corporate agency. This was in fact the result of the Liberty-bond transactions, with a single exception. It seems that on one occasion, near the end of the corporation's activities in purchasing bonds, what was left of one issue of bonds was transferred to the Treasury at the current market price rather than at cost, resulting in a paper profit of about $53,000 to the Treasury and a corresponding paper loss to the War Finance Corporation. With this exception the whole transaction, involving purchases and sales of nearly $2,000,000,000 of bonds, was carried on at exact cost for the Treasury. The implication in the majority report that in some way the Treasury suffered a loss of $24,000,000 in connection with the purchase of bonds from the War Finance Corporation has, in my opinion, no foundation whatever, and I am at a loss to know on what evidence it is based.

The report refers to the dates of bond purchases given by the Secretary of the Treasury, presumably in the reports submitted each year to Congress showing purchases under the bond purchase fund. These dates represent merely the dates on which bonds were taken over by the Treasury from the War Finance Corporation. They have no relation whatever to the dates on which the bonds were bought by the corporation in the open market. Bonds may have been bought by the War Finance Corporation several months before the Treasury desired or was in position to take them over. Evidently the report seeks to convey the impression that the Government suffered a large loss because, on the dates on which bonds were transferred to the Treasury by the corporation, the prices in the market were lower than those at which the transfers were made. This contention is too absurd to warrant more than a passing comment.

The report suggests that there was some violation of the spirit of the law in the fact that Government bonds were sold by the War Finance Corporation below par. There is nothing to this point. The Congress expressly authorized the corporation to buy, sell, and deal in bonds and obligations of the United States. The Secretary of the Treasury made it clear in his statement to the committees of Congress that the contemplated operations would involve sales as well as purchases, and that they would be carried on in the open market. At the very time Secretary McAdoo was testifying all issues of Liberty bonds were below par. If the corporation could only buy and never sell, its operations and its usefulness would soon have come to an end. If the Congress had intended, as the majority report implies, merely to authorize the purchase of bonds for retirement, there would have been no possible useful purpose in giving the War Finance Corporation power to buy and sell Government obligations.

As a matter of fact, the actual number of bonds sold by the War Finance Corporation in the open market seems to have been relatively small. A large part of the sales appear to have constituted in effect no more than exchanges of one issue of bonds for another. On April 18, 1920, the stabilization operations of the corporation were terminated in accordance with an official announcement of the Treasury. Subsequently, the corporation was requested to turn over to the Treasury, for the bond purchase fund, and other Government funds, such bonds as it still had in its possession. It developed that the corporation had on hand more bonds of certain issues than the bond purchase fund was in a position to absorb, while it had an insufficient amount of certain other issues for the purpose. The corporation, therefore, by direction of the Treasury, sold bonds of the issues in which it held an excess and bought the same number of bonds of the issues of which there was an insufficient amount. The transactions resulted in a net difference of from $150,000 to $200,000 in favor of the Government, as bonds were purchased on the average at materially lower prices than were obtained for the bonds sold. These transactions, which were in substance nothing but exchanges, accounted for a substantial part of the sales by the War Finance Corporation, to which exception is taken in the majority report.

If the matter were not dealt with so seriously in the majority report, and if it had not been announced with such an air of having uncovered a scandal, I should feel like apologizing to the House for this detailed explanation. These transactions happened more than five years ago. They involved solely transactions between the United States Treasury and a corporation of which every dollar of stock was and is owned by the United States Treasury. I can not see the use of spending a lot of money to hire high-priced accountants to find out whether or not one pocket of the Treasury profited at the expense of another pocket. It is a waste of time even to talk about the matter. The Treasury and the War Finance Corporation both belong to Uncle Sam.

I come now to a matter which is dealt with at length in the report. I refer to the implication in the majority report that there was something questionable in the use by the War Finance Corporation of the private offices of one of its directors as a facility in making purchases and sales of Liberty bonds. The matter was so fully and satisfactorily explained at the public hearings of the committee that it is difficult to see why the matter is even commented upon in the majority report.

The sworn testimony shows that Mr. Eugene Meyer, jr., was formerly the principal member of the firm of Eugene Meyer, jr. & Co. At the end of 1917 the firm was dissolved and began to liquidate its affairs. Beginning in June, 1918, as a convenience to the War Finance Corporation and the Treasury, with the approval of the Secretary of the Treasury McAdoo, Mr. Meyer donated the facilities and service of his office in connection with the purchase and sale of Liberty bonds. In doing so he expressly stipulated that no charge would be made by himself or his former firm, whether for rent, operating expenses, or services. All those expenses were personally borne by Mr. Meyer, and the service performed free of all cost to the Government. This is established by the sworn testimony, and there is not a shred of evidence to contradict it.

Where, then, is the ground for criticism? Apparently the whole difficulty arose out of the fact that the statement containing the record of each transaction, as submitted from day to day to the War Finance Corporation contained an item entitled "commissions." The statement contained three separate items, the principal amount of the purchase, the accrued interest, and an item entitled "commissions." The expert investigator of the committee came aross some of these statements, and jumped to the conclusion that they referred to commissions paid by the War Finance Corporation to Mr. Meyer. Here was an excellent scandal, and a public hearing was held on October 25, 1924, so that the matter could be aired. At the hearing it promptly developed that Mr. Meyer did not get a single cent of commissions. He had placed orders with a number of established brokerage houses, and they had purchased bonds in the open market, billing Mr. Meyer's office for principal, interest, and the customary minimum commission charged by brokers. Mr. Meyer's office billed the War Finance Corporation for the exact amount disbursed by him for these purposes. The commissions referred to in the statements were not commissions paid to Mr. Meyer, but commissions disbursed by him in purchasing bonds, and reimbursed, dollar for dollar, by the War Finance Corporation. When this obvious mistake of the expert investigator had been discovered, one might suppose that the matter would have been allowed to rest, with an apology for the misunderstanding. Yet in the majority report the story is again brought out, sufficiently beclouded by insinuations and ambiguous words to lead a casual reader to think that there was still some unexplained wrongdoing; and this in spite of the fact that expert accountants of unquestioned standing have audited the books and certified that every cent had been accounted for and no commissions or even expenses charged by Mr. Meyer.

The majority report attempts to create an air of suspicion by referring to alleged "alterations and changes" in the "books of record" of the War Finance Corporation covering the Liberty bond transactions. An exchange of letters between the committee and the treasurer of the War Finance Corporation completely disproved these insinuations. There is no evidence of any change or alteration in any of the books of record of the corporation. The corporation kept, as a matter of convenience, a memorandum account which was called the Liberty bond register, in which certain figures and compilations relating to Liberty bond transactions were kept.

This was not an original book of entry, but merely a supplementary memorandum record. While the committee was investigating the Liberty bond transactions a bookkeeper of the War Finance Corporation happened to be engaged in compiling some tables from the Liberty bond register. He noticed that through an oversight certain notations had been omitted from one part of the register, though the same information was contained in other parts of the same book. The bookkeeper supplied the omission by entering the missing notations. The treasurer stated under oath that he knew nothing of the notations, and there is nothing in the testimony to suggest anything to the contrary. That is all there is to the alleged "alterations and changes." So that the record may be complete I will at the close of my remarks insert in the Record the correspondence relating to this matter.

What I have said should demonstrate beyond the shadow of a doubt that there is no need for an audit of the public debt which the majority report recommended. Such an audit would be a tremendous task and would involve untold expense to the Government. It would entail the audit of all public-debt receipts and expenditures by the 12 Federal reserve banks and their 23 branches, as well as by the Treasurer of the United States. From April 1, 1917, to July 30, 1924, receipts aggregated in excess of $88,000,000,000 and expenditures in excess of $68,000,000,000. All of these receipts and expenditures are covered by requisitions and shown in accounts to the Comptroller General of the United States. It would require the complete audit of the manufacturer under contract of Government distinctive paper, involving from the beginning of the fiscal year 1917 to the close of the fiscal year 1924, over 119,000,000 sheets. It would require an audit of the printing and issue of over $172,000,000,000 of securities, not including work done for the insular governments, and of the retirement or exchange of over $100,000,000,000 of securities, not to speak of an audit of the War Finance Corporation transactions in bonds which totaled nearly $2,000,000,000. These are some of the things involved, not all. Now, gentlemen, it would be a tremendous task which would take 10 years or more, and cost the taxpayers of the country millions of dollars. Not only that but it would be an entirely useless and ridiculous procedure, for, as amatter of fact, every transaction in connection with the public debt was currently audited.

The recommendation for the separation of the Bureau of Engraving and Printing, the Division of Paper Custody, and the Register's Office is equally ridiculous. There is no reason why these branches of the Treasury should be answerable directly to Congress. Congress has enough to do without attempting to perform executive functions, for which, as a matter of fact, there is no authority under the Constitution. The Secretary of the Treasury is by law charged with the administration of the financial operations of the Nation, and he is and should be held responsible. The report suggested that the Bureau of Engraving and Printing is an organization similar to the Government Printing Office. The Government Printing Office is properly under the supervision of Congress. It was established originally for the purpose of handling congressional printing. The Bureau of Engraving and Printing is an integral part of the Treasury organization. It is merely a piece of machinery required by the Secretary of the Treasury to discharge the duties imposed upon him specifically by law. Congress has, for instance, charged the Secretary of the Treasury with the full responsibility in connection with the preparation and issue of securities. To separate production from issue would divide the responsibility and leave the Secretary without any control over the integrity of production. Involved in the situation would be the production, custody, and the use of engraved stock, now controlled by appropriate safeguards administered by the Secretary of the Treasury and the Comptroller of the Currency. Likewise, the Division of Paper Custody and the Office of the Register of the Treasury are essential parts of the Treasury machinery. The former acts as the custodian of blank paper. All its transactions are reported to the Division of Public Debt Accounts and Audit, a unit functioning entirely independent of the Division of Paper Custody and the Bureau of Engraving and Printing. The most important item handled by the Division of Paper Custody is, of course, the distinctive silk-fiber paper which is contracted for by the Secretary of the Treasury, with respect to the manufacture of which special safeguards are provided. This paper is one of the principal safeguards against counterfeiting. The authority and responsibility of the Secretary for this paper would be broken if at any time it was delivered to an organization outside of his control, as would be the case if this division or the Bureau and Engraving and Printing were removed from the Secretary's jurisdiction.

The Dockery Act, approved July 18, 1894, charged the Secretary of the Treasury with responsibility for supervising the duties of the register's office. All securities delivered to that office are reported by the delivery office direct to the division of public debt accounts and audit. The register likewise reports to the division all securities received. Complete control accounts are therefore maintained by this independent division over all public-debt securities. After paid securities are received by the register and audited by him his certificate is forwarded to the Comptroller General of the United States in support of disbursements made by the Treasurer on account of payment of such securities.

I am convinced after careful examination into the organization, that it would be one of the greatest mistakes this Congress could make to put into effect the separations recommended by the majority report.

In conclusion, let me point out that practically all charges in the majority report are based upon operations which took place during a Democratic administration. In my remarks, I have commended these operations, because I believe they were conducted in a most praiseworthy manner and that there is no justification for the criticism that has been leveled against them. I am a Republican, and I believe in being fair even to the other side. And I am indeed proud that the present Secretary of the Treasury, of my own party, and one of the greatest this Nation has ever had, has taken the same fair and, I believe, just position.

Senator CAREY. Mr. Cook, will you be sworn now?

## TESTIMONY OF ALFRED A. COOK, NEW YORK CITY

(The witness was duly sworn by the chairman.)

Senator CAREY. Will you please state your full name.

Mr. COOK. Alfred A. Cook.

Senator CAREY. And what is your address in New York?

Mr. COOK. My home is 630 Park Avenue and my office is 20 Pine Street.

Senator CAREY. Your occupation is that of an attorney?

Mr. COOK. Yes, sir; since 1895.

Senator CAREY. You have heard the testimony of Congressman McFadden?

Mr. COOK. Yes, sir.

Senator CAREY. I believe he stated that you were special counsel for the War Finance Corporation for railroad matters in 1919.

Mr. COOK. That is the proudest thing that I have ever done, sir, in my life; and, in view of the fact that work has been singled out in the remarks of Mr. McFadden, I would like the personal privilege of reading to the committee the following letter from the Secretary of the Treasury, Carter Glass. The letter is as follows:

TREASURY DEPARTMENT,
*Washington, July 22, 1919.*

ALFRED A. COOK, Esq.,
*111 Broadway, New York.*

DEAR MR. COOK: The payment of the loans made by the War Finance Corporation to bridge the gap created by the lack of appropriation to the Railroad Administration puts me in mind to say how deeply I appreciate the splendid public service which you have rendered in that connection. Your broad view of the situation and your careful and skillful handling of the problem as a lawyer were well nigh invaluable in an emergency which seemed very grave. You sacrificed your time and convenience and personal interests to do this work. I now learn from the Director of the War Finance Corporation that you prefer to submit no bill for your services but wish them to stand as a war contribution. I sympathize with that feeling, and I do not hesitate to say that no bill which you could render would in my mind measure the service which you have rendered to the United States on this occasion.

With warmest appreciation and cordial best wishes, I am,

Sincerely yours,

CARTER GLASS.

I speak of this, Mr. Chairman, not because I desire any encomium for what I did, but because being one proud of his work and of his country I rather resent the suggestion contained in Mr. McFadden's statement as to my special counselship for the War Finance Corporation. I wish Mr. McFadden would know what he talks of. I am ready for the next question, sir.

Senator CARY. Are you attorney for the Midland group of banks?

Mr. COOK. I am not and never was.

Senator CAREY. You are not employed by them. Were you formerly attorney for the Fidelity Trust Co. which was merged with the Midland?

Mr. COOK. Yes, sir. I organized the Fidelity Trust and its predecessors in 1904. I have been counsel for the Fidelity Trust Co. and its predecessors since 1904. In the early part of 1930 the Marine-Midland groups purchased the controlling interest in the Fidelity Trust Co. I had an annual retainer from the Fidelity Trust Co., which terminated on December 31, 1930. At the request of Mr.

James G. Blaine, a grandson of the former Secretary of State, I remained with the Fidelity Trust Co. until the end of the year, and I tendered my resignation to Mr. Blaine at the conclusion of my service at the end of 1930, and he asked me, in view of the fact that I had several matters in hand that were urgent, to stay on until the 1st of July without retainer so as to conclude my work. Being glad to meet any convenience of Mr. Blaine, I agreed to remain until the 1st of July of this year, when I shall give way to the counsel of the Marine-Midland group of banks.

Senator WAGNER. That was your sole connection with the Marine group?

Mr. COOK. Entirely so. I never had any connection before, nor have I had any connection with the Marine-Midland group since. They acquired the stock of the Fidelity Trust Co. I was a director of the Fidelity Trust Co. and I resigned from the board.

Senator FLETCHER. When did that take place?

Mr. COOK. In March, 1930.

Senator FLETCHER. And the Fidelity Trust Co. was taken over by the Midland group?

Mr. COOK. The Marine Midland group of banks, Senator, purchased the control of the Fidelity Trust Co. They were in possession of possibly 97 or 98 per cent of the stock, but the Marine-Midland group of banks have, I assume, 15 or 16 or 17 banks. The Fidelity Trust Co. is only one of many. The Fidelity Trust Co. was organized more than 25 years ago. I have always been its counsel, and at the end of December I resigned, and I am now merely counsel for that particular bank. I have nothing to do with the Marine Midland group of banks.

Senator FLETCHER. When was the Marine group organized?

Mr. COOK. I do not know.

Senator FLETCHER. Did they have any stock in the Fidelity Trust Co. before March, 1930?

Mr. COOK. The agreement was made, I think, in February, 1930, for the acquisition of the stock of the bank. If an exact date becomes important I can give it to you, because I have that with me.

Senator, I desire to emphasize the fact that I am not and never have been counsel for the Marine-Midland group of banks. I have been counsel for the Fidelity Trust Co. for 25 or more years. I organized it. It was originally known as the Coal & Iron National Bank. Then there was a consolidation with the Fidelity International Trust Co. and the merged institution took the name of the Fidelity Trust Co. and became a New York State institution.

Senator BROOKHART. Which was the big institution in that merger?

Mr. COOK. Do you mean as between the Coal and Iron and the Fidelity International Trust? I think it was pretty nearly fifty-fifty.

Senator CAREY. Did you have anything to do with the negotiations between the Fidelity and the Marine-Midland group when they were merged?

Mr. COOK. Do you mean for the acquisition of the shares?

Senator CAREY. Yes.

Mr. COOK. My firm drew the papers whereby the stockholders of the Fidelity Trust Co. were offered the terms, either 1¾ shares of stock of the Marine-Midland Corporation for every share of Fidelity Trust Co., or $40 in cash and one share of Marine-Midland Corporation.

Senator CAREY. And you represented the Fidelity in that transaction?

Mr. COOK. Yes, sir. I did not personally take charge of the matter. One of my partners did.

Senator CAREY. Were you attorney for the New York bank?

Mr. COOK. Yes, sir. I have been its general counsel for over 25 years.

Senator CAREY. There is no question about your being a brother-in-law of Mr. Meyer?

Mr. COOK. I am rather proud of that, sir.

Senator CAREY. You heard Mr. McFadden's testimony, and he has alleged that you took some part in the employment of Mr. Platt by the Marine-Midland group. Did you have anything to do with the negotiations that led up to his employment?

Mr. COOK. I do not know, Mr. Platt. I never met Mr. Platt, and I had nothing to do, directly or indirectly with Mr. Platt's resignation from the Federal reserve board or any employment of any kind that he has had. I do not know where Mr. McFadden got that information, nor do I understand how it is that Mr. McFadden makes that statement to your committee, because there is no proof of it in any way, shape, manner of form.

Senator CAREY. In other words, you had nothing to do with any such negotiations?

Mr. COOK. Nothing whatever. I might as well make the same statment as to Governor Young. I do not know Governor Young, never met him, and never talked to him, except that I was introduced to him this morning prior to the meeting of this committee.

Senator CAREY. Did you or Mr. Meyer discuss Mr. Platt's going to the Midland group?

Mr. COOK. I recall that I am under oath, Mr. Chairman, and I never knew of Mr. Meyer's selection for governor of the Federal Reserve Board until I read of it in the newspapers like everybody else. Mr. Meyer never talked to me on that subject. Mr. Meyer has a habit of being a very good listener. In view of the fact, Mr. Chairman, that I am active in New York, and was special counsel for the War Finance Corporation, Mr. Meyer deemed it wise to keep me unacquainted with whatever his activities were in Washington, and I think rather wisely.

Senator CAREY. You do not know what arrangement was made with Mr. Platt by the Midland people as to salary?

Mr. COOK. I know nothing about that, directly or indirectly, in any way, shape, manner or form. I read it in the newspapers.

Senator FLETCHER. What is the name of your firm?

Mr. COOK. Cook, Nathan & Lehman.

Senator FLETCHER. With offices where?

Mr. COOK. At 20 Pine Street, New York.

Senator WAGNER. One of the best known firms in New York.

Mr. COOK. A former senior of my firm was an associate of Judge Wagner when he was on the bench.

Senator FLETCHER. That accounts for Senator Wagner's statement perhaps?

Senator BROOKHART. Did any members of your firm have anything to do with the negotiations for these resignations?

Mr. Cook. No, sir. Mr. Rand's name was mentioned here. I never had any discussion with Mr. Rand, directly or indirectly. As I recall, I have seen Mr. Rand twice in 1930. The first time was when negotiations were under way for the acquisition by his own institution of the stock of the Fidelity Trust Co., and the second time that I saw Mr. Rand during the year 1930 was as he was going into his bank a few weeks ago and I had the temerity to say, "Good morning."

I might also say that I have not had anything to do with nor heard of it in connection with any one of the Marine-Midland group. I do not know who their directors are. I know who their counsel is, a well-known firm in Buffalo.

In other words, Mr. Chairman, all the statements made in this letter by Mr. McFadden are founded on whole cloth and are untrue, so far as any reference to me is concerned, directly or indirectly, in any way, shape, manner or form. I am surprised that a Congressman sees fit to give dignity to things like that.

Senator Brookhart. The statement in the letter that you were talking about refers to a connection with the Morgan firm. How about that?

Mr. Cook. Senator, if I may be forgiven for saying something that strikes me as amusing, I was rung up on the telephone while you were making your remarks in the Senate by a firm that I do work for and they said they now understood why my bill was so high. They said, "It was stated on the floor of the Senate that you are counsel for J. P. Morgan." My reply was as follows:

Senator Brookhart. That was not the statement. Some one was giving you the wrong dope.

Mr. Cook. That may be, and that is the only wrong thing in connection with this particular matter that has been brought to my attention. I have no connection with J. P. Morgan & Co., and never have had.

Senator Brookhart. Or any member of their firm?

Mr. Cook. Nor have I acted at any time for any member of that firm. I met a member of the firm, Mr. Leffingwell, at the time I came to Washington. But Mr. Leffingwell, did not need me, sir.

Senator Brookhart. I want to ask what was the nature of your duties as attorney for railroad matters in the War Finance Corporation. What matters did you handle?

Mr. Cook. The President went abroad on the second trip and left an appropriation bill for $750,000,000 for the Railroad Administration of which Mr. Walker D. Hines was then director general, unsigned.

Mr. Meyer. It was not passed by the Congress.

Mr. Cook. I beg your pardon. It had not gone through Congress. The Director General of Railroads owed under the railroad act hundreds of millions of dollars to the various railroad companies pursuant to the provisions of the act and the taking over of control by the Government.

Senator Brookhart. What was the nature of those claims?

Mr. Cook. I am going back a great many years now.

Senator Brookhart. I do not care about the details.

Mr. Cook. When the Government took control agreements were made between the railroad companies and the Government whereby certain payments were to be made by the Government to the railroad companies so as to enable the railroad companies to meet their obligations in the way of bond interest and various other matters.

Senator BROOKHART. These were just advances?

Mr. COOK. No; that was an agreement and the railroads were entitled to get from the Government every month certain stipulated sums by agreement.

Senator BROOKHART. Those were not in final settlement with the railroads; they were just partial payments on their guarantee during Government operation?

Mr. COOK. Yes.

Mr. MEYER. It was during the period of Government operation and these were payments which the Government had contracted for under the Government control act.

Senator BROOKHART. What I am getting at now is whether they constituted a final settlement of claims.

Mr. COOK. No; I think the final settlements were only made within possibly the last year or two, and I understand there are some that are still open.

Senator BROOKHART. I wanted to find out because Senator Glass's opinion of those final settlements is vastly different from the letter that he wrote to you.

Mr. COOK. I had nothing to do with the agreements that the Government made with the railroads.

Senator BROOKHART. I am not arguing that at all.

Mr. COOK. Senator, pardon me. You are taking issue with something that I said, and you are incorrect, if I may be so bold as to say that. I had nothing to do with the final settlements. I had nothing to do with the agreements. I had nothing to do with anything of that sort. What I did have to do with was that $750,000,000 appropriation bill so that Director General Hines would have funds wherewith to meet Government contracts actually executed and signed in behalf of the Government and the railroads; that he would have sufficient funds wherewith to pay; and I might also state, Senator Brookhart, that there was a $50,000,000 pay roll due to the Navy, and he did not have that, and I arranged with Mr. Meyer, who was then chairman of the War Finance Corporation, a method of financing whereby that $50,000,000 pay roll was advanced by the Director General of Railroads.

Senator BROOKHART. Those were preliminary advances and the final settlements you had nothing to do with?

Mr. COOK. Those were guaranteed amounts. The Director General did not have any money wherewith to meet even the Government obligation. So I was called down to Washington—I was fairly familiar with some of those things—to sit with the War Finance Corporation and try to devise some plan whereby the War Finance Corporation could lend aid.

Senator BROOKHART. You had nothing to do with the final settlements that were made when James C. Davis was Director General of Railroads?

Mr. COOK. No, sir; but I met him and came down to Washington again as special counsel when Mr. Davis had on hand $400,000,000 of equipment trust notes and the Government needed $400,000,000. Mr. Meyer, as chairman of the War Finance Corporation, undertook with Mr. Davis as Director General of Railroads, the placing of the entire $400,000,000 of equipment notes. He was in Washington. He asked me in New York whether I could help, and for an entire month, Senator—and I am rather proud of that, too—I disposed of over $200,000,000 of equipment notes at par and interest; and, while I have no letter from Director General Davis, I am quite sure he would be happy to write me one if I should ask him.

Senator FLETCHER. You spoke about the disposition of $200,000,000 of notes. How did you dispose of them?

Mr. COOK. $15,000,000 of those were taken at par and interest by Kuhn, Loeb & Co. The minute it became known that Kuhn, Loeb & Co. had taken $15,000,000 of the notes at par and interest, which was what the Government wanted——

Senator FLETCHER. Without recourse?

Mr. COOK. These were equipment trust obligations of the railroads, sir.

Senator FLETCHER. The Government was not back of that?

Mr. COOK. No. It is not very difficult, Senator, to dispose of Government obligations.

Senator BROOKHART. Under Director General Davis's administration there were some $1,200,000,000 damage claims against the railroads. This $400,000,000 that you handled had nothing to do with the settlement of those trumped-up claims?

Mr. COOK. No, sir. The railroads needed equipment.

Senator BROOKHART. It was simply a Government loan from the War Finance Corporation?

Mr. COOK. The railroads of the country gave their equipment trust obligations.

Mr. MEYER. May I interrupt just a minute, Mr. Chairman?

In September, 1921, Director General Davis asked me to assist the Railroad Administration in disposing of some of their equipment trust notes. They were not the property of the War Finance Corporation; they were the property of the Railroad Administration.

Senator BROOKHART. That was a private affair?

Mr. MEYER. It was not a private affair. It was a matter of the Railroad Administration of the United States Government. The securities were still in the possession of the United States Government and in the treasury of the Railroad Administration. The Railroad Administration wanted to liquidate some of its indebtedness. It had these securities which it had taken from the railroads when it bought a lot of equipment during Government operation. The Government ordered, I think, 100,000 freight cars and some locomotives and turned them over to the railroads and took equipment trust notes. These notes were to be disposed of, if possible, and they were disposed of at exactly cost to the United States Government without loss.

Senator BROOKHART. You marketed those trusts for them?

Mr. MEYER. I was appointed by Mr. Davis to sell those securities in order to avoid increased appropriations.

Senator BROOKHART. Did you do that through the War Finance Corporation?

Mr. MEYER. No; it had nothing to do with the War Finance Corporation.

Senator BROOKHART. You did that through Eugene Meyer?

Mr. MEYER. No; I did not; I did it as an appointee of the Railroad Administration. It was publicly known that all of these securities were for sale at cost, with interest, to the Government, and the first that came got them, whoever they happened to be. They were sold without loss to the United States Government and without cost.

Mr. Cook. And at no expense to the United States Government.

Mr. Meyer. I do not see what it has to do with this matter, but I am perfectly willing to explain.

Senator Carey. Have you been attorney for Lazard Freres & Co.?

Mr. Cook. Yes, sir.

Senator Carey. Are you still attorney for them?

Mr. Cook. Yes, sir.

Senator Carey. Mr. Blumenthal is your brother-in-law?

Mr. Cook. He is, and he retired from the firm of Lazard Freres & Co. over five years ago and is not engaged in active business.

Senator Carey. Are you still a stockholder in the Fidelity?

Mr. Cook. Yes; I have, perhaps, 83 shares of stock in the Fidelity, and I ought to say this so that the record may be clear; I was a shareholder in the Fidelity Trust Co.; I think I had 750 shares when the offer was made by the Marine-Midland Corporation. I took $40 cash and I got one share of stock of the Marine-Midland Corporation for each share of Fidelity Trust.

Senator Wagner. I think we are getting pretty far into a man's personal affairs here. I know that Mr. Cook does not object, but we shall be here forever ifwe continue along this line.

Senator Carey. I was asking these questions to clear up some statements made by Mr. McFadden. Has any one any more questions to ask Mr. Cook? If not, that will be all, Mr. Cook.

## TESTIMONY OF GEORGE F. RAND, PRESIDENT, THE MARINE TRUST CO., OF BUFFALO, BUFFALO, N. Y.

(The witness was duly sworn by the chairman.)

Senator Carey. Mr. Rand, will you give your name, please?

Mr. Rand. George F. Rand.

Senator Carey. You live in Buffalo, N. Y.?

Mr. Rand. Buffalo, N. Y.

Senator Carey. And you are president of the Marine Midland group of banks?

Mr. Rand. I am president of the Marine Midland Corporation. There is no corporation named Marine Midland group of banks. I am president of the Marine Trust Co. of Buffalo.

Senator Carey. The proper name is Marine Midland Corporation?

Mr. Rand. Marine Midland Corporation.

Senator Fletcher. And the trust company is what?

Mr. Rand. The Marine Trust Co. of Buffalo.

The Marine Midland Corporation owns about 98 per cent of the stock of the Marine Trust Co.

Senator Carey. Did you have anything to do with the negotiations leading up to the appointment of Mr. Platt?

Mr. Rand. Yes; I had all to do with them.

Senator Carey. Will you explain that to the committee?

Mr. Rand. In June of 1930 Mr. Platt made an address at Poland Spring, Me., before a group of bankers. I thought I had a copy of that address with me, but, unfortunately, I left it home. I can, however, send a copy for your records.

Mr. Platt made an address in which he advocated branch and group banking. He sent me a copy of that. I had not known Mr. Platt except by reputation before that time. He sent me a copy of this address and I was very favorably impressed with it. We had it printed in booklet form on July 3, 1930, and I sent it out to some of our directors in the various banks that comprise the Marine Midland group.

(Mr. Platt's address was thereafter presented to the committee and was made a part of the record, as follows:)

ADDRESS OF HON. EDMUND PLATT, VICE GOVERNOR OF THE FEDERAL RESERVE BOARD, AT THE JUNE QUARTERLY MEETING OF THE NEW ENGLAND COUNCIL

We Americans, I think, are generally rather prone to what might be called doctrinaire positions—that is, we frequently take the position that one method of doing something is the logical and only method and that all other methods are wrong even though we find that other methods are in use in other countries with evident success. Ours is a big country and we are rather bumptious about its great progress and general success. We do not easily see, or if we do see, we are often rather unwilling to admit its shortcomings or to provide remedies. Then when something gets so bad as to force itself on our attention and becomes a subject of rather general agitation we too frequently think that the only remedy consists in passing more laws. Our banking system, which grew up originally under State charters, has been generally described as an independent unit banking system, with every community large enough to require banking accommodation served by its own local banking corporation. So strongly wedded have most of our bankers been to this system that not a few of them have denounced branch banking as monopolistic and un-American, and some of them appear to believe that the only reason why Canada is not larger than the United States to-day is because Canada has branch banking.

Now, persons who have given a good deal of time to the study of banking in other countries as well as our own are of the opinion that branch banking has served Canada very well, and has promoted the development of its great West instead of retarding it. We find, in fact, that interest rates in the prairie provinces of Canada are generally somewhat lower than interest rates in our adjoining States, and we find, furthermore, that a tremendous amount of money has been lost through bank failures in such States as North and South Dakota, Montana, and Idaho, while just across the border in Canada there have been no failures during recent years.

If the agricultural and economic depression of 1920–21 was the cause of a great number of bank failures in the great agricultural sections of the United States, why did it not cause an equal number of failures across the line where conditions were practically the same? It seems obvious that our banking system itself must have been at least somewhat at fault—that it was not strong enough to stand up under adverse conditions. Looking back into our banking history we find that after every period of business depression many small banks have failed, while as a rule the larger banks in the larger cities have stood the test. You are doubtless familiar with the figures presented by the Comptroller of the Currency, Mr. Pole, in his annual report and in his recent addresses showing that some two-thirds of the bank failures in this country are of banks of small capitalization, $25,000 or less, and that about an equal percentage of the bank failures occur in small towns, towns of 2,500 and less. These figures and their classification by capitalization and by size of communities have been furnished from time to time by the division of bank operations of the Federal Reserve Board and have been published from time to time in the Federal Reserve Bulletin.

No less than 5,642 banks were closed in the years 1921 to 1929, inclusive, most of them in agricultural communities where the people could least afford to lose. "During the last 10 years," said the Comptroller, "and continuing at the present, bank failures have been a blight on the Mississippi Valley, the South, the Southwest, and the Northwest. There are agricultural counties in which every bank has failed." There were 349 failures during the first four months of this year ending April 30, of which 92 occurred in the month of April. The latest figures show about the same proportion of failures of banks with small capitalization and in small towns. This whole exhibit of failures is a disgrace to the country and certainly should not be permitted to continue if a remedy can be found, whether the remedy is popular or unpopular in the banking fraternity. It is something that business men should take more interest in than they have generally shown in the past.

The problem is not acute in the Northeastern States. New England, New York, and Pennsylvania have had very few bank failures, but they are not so entirely exempt as to make the subject wholly without interest. Two failures have occurred in the Boston Federal reserve district since the 1st of January, 1 in the New York district, 2 in the Philadelphia district, 7 in the Cleveland district. It is interesting to note that all the other districts run into two figures, excepting one, San Francisco, the largest of those with two figures being the Chicago district with 93 failures and the smallest the Dallas district with 14. Coming down to the San Francisco district we find only three. The Pacific coast, therefore, appears to rank with relation to bank failures at least somewhat with the Eastern States, but there we find throughout the great State of California branch banking very highly developed, which at least raises the presumption, the district being largely agricultural, that branch banking may have something to do with the contrast between that district and the agricultural districts of the South and Middle West.

I have been credited with having been something of a pioneer in advocating branch banking as a remedy for bank failures, but branch banking has been recognized as a remedy and has been recommended many times in the past. After the great panic of 1893 we find that two Comptrollers of the Currency in succession, Mr. Eckles and Mr. Charles G. Dawes, recommended branch banking, particularly in the smaller communities. Mr. Dawes recommended that branches be allowed in towns of 2,000 or less, but he coupled this recommendation with a rather violent argument against a general or nation-wide branch banking development and did not follow it up.

In May, 1902, Mr. James B. Forgan, chairman of the First National Bank of Chicago, one of the leading bankers for many years in the United States, delivered an address on branch banking before the Bankers Club at Milwaukee, which attracted considerable attention. Mr. Forgan declared that the development of banking in the United States had been diverted from its natural course by erroneous politics and policy and added:

"Had banking, as in the case of other lines of business, been allowed to work out its own destiny untrammeled by politics and free from subordination to government necessities a system would ere this have been established which would have made itself felt as a potent factor in the financial affairs of nations. We would also now have a system that would stand together for the public benefit in times of financial distress. As it is to-day we have no banks that will compare in financial strength and power with those of other countries. While actively competing with other nations in the fields of commerce and industry, it must be admitted that in the world's finance we are away behind in the race; nor does our system even satisfactorily provide for our own domestic requirements. The need of coalition among our unit banks is urgent."

The passage of the Federal reserve act and the development of the Federal reserve system have changed some of the worst conditions that Mr. Forgan complained of, and we have had coalitions in the large cities which have given us banks which do compare in financial strength and power with those of other countries. It is claimed that we have one or two banks in New York since the latest mergers larger than any bank in any other country—but there is still urgent need of coalition among our small unit banks in the agricultural sections of the country. Mergers have gone a long way, possibly too far, in the big cities but they have been practically forbidden to country banks. If you attempt to merge two banks in towns located 10 or 20 miles apart in the same county but not within the same municipal limits you can not under Federal law keep both offices open. The McFadden Act of February, 1927, permits mergers and branches in cities where State banks can have branches but prohibits mergers and branches in country districts if the banks belong to the Federal reserve system even though State laws permit and encourage branches.

This prohibition has had a rather serious effect in one of our southern Federal reserve districts, the Richmond district, where considerable numbers of country banks, some of them rather sizable, have withdrawn from the Federal reserve system in order to enter branch banking organizations under State laws. This development has been mostly in North and South Carolina, and Governor Seay, of the Federal Reserve Bank of Richmond has stated in a recent letter that, "The aggregate deposits of banks which have relinquished membership because of the present status of the law relating to branch banking was about $75,000,000"—during 1929 and to date of letter in 1930. Further commenting upon these conditions in a letter dated May 20, Governor Seay says, "The extent to which branch banking shall be permitted, that is, whether it shall be country-wide or shall have commercial or Federal reserve zones, may be debatable; but I do not think it is any longer debatable as to whether member banks in the Federal reserve system shall be able to establish branches throughout States which permit their own State banking institutions to establish branches."

This statement it seems to me should have general indorsement. There is no reason that I can see why national banks and member State banks should not be allowed the same privileges with relation to branch banking that are allowed to State banks in the States where branch banking is permitted. A few banks have been lost to the Federal reserve system in other reserve districts through the branch banking restrictions of the McFadden Act, one of them here in the State of Maine. It is obvious, of course, that the recent rapid development of branch banking in the Carolinas has been chiefly due to economic reasons. Many small banks have failed within the last five years and the people have turned to branch banking as a remedy. Why try to restrain such a natural and necessary movement by law?

The general conception of branch banking on the part of many of the bankers who have participated in the debate on the subject is that of a "reaching out" of banks in the large cities into the country. That conception was recently expressed by Mr. C. T. Zimmerman, president of the First National Bank of Huntingdon, Pa., in an article, published in the Bankers Magazine, in which he said: "Merging of city banks in order to handle larger financing is doubtless justifiable in this trend, but to enable them to reach out for control of country banks is not justifiable." It didn't seem to occur to Mr. Zimmerman that country banks could merge if allowed to have branches, without reference to, or connection with any large city. The comptroller's proposed amendment to the banking laws might well prohibit banks in central reserve cities, that is New York and Chicago, from establishing branches outside city limits, unless in immediately adjoining suburban territory—for two reasons. In the first place, they never would put branches in small towns where bank failures mostly occur. Their idea of branch banking is to have branches only in the larger cities, which would not accomplish anything so far as the prevention of failures is concerned. Furthermore, they have no need of branches as they already do a very large part of the best business all over the country without the expense of maintaining branches. In almost every small city and in many of the rather large cities there are large industries and people of wealth who find the local banking facilities too small for their purpose and, therefore, carry accounts in New York or Chicago. This brings up the comptroller's point that to permit branch banking in "trade areas" would decentralize credit, that is, would create banking institutions in what New York sometimes calls the Hinterland large enough to handle much of the business now forced into New York because our unit banks in a very great number of places are too small to handle it.

It does not seem to be clearly understood that the unit banking system, carried to such an extreme as we have carried it in this country, forces banking business into the big cities and particularly into New York that could and should be done elsewhere, and also fosters speculation by forcing money into Wall Street to be loaned to brokers that might frequently be loaned, if not at home, at least to industries in the same state or in the same general neighborhood. Some economists have recognized this fact, but I think it was never forcefully presented until Comptroller Pole's recent address. Its truth can be amply proven. Early in 1926 there was formed in South Carolina a combination of three banks under the auspices of the Bank of Charleston, which after the necessary consolidations became the South Carolina National Bank. Interests connected with the Bank of Charleston, of which Mr. R. S. Small was the president, acquired control of the Norwood National Bank of Greenville in the Piedmont section and the Carolina National Bank in Columbia, in the center of the State. These three banks became State banks for a brief period and were consolidated under State laws, the Greenville bank and the Columbia bank becoming branches of the bank in Charleston. They were then converted into a national bank with branches under the provisions of the act of 1865 (a wise provision of law unhappily repealed by the McFadden Act of 1927). In a circular letter issued to the shareholders of the Bank of Charleston, National Bankers' Association, in January, 1926, Mr. Small stated that it was planned to consolidate these three banks into one corporation, in order, first, to be able to compete with the larger institutions in the North and East for the best class of business in the State, and, secondly, he said, "It is a fundamental principle of banking that loans should be diversified, but there has not been in the smaller communities throughout the country a proper recognition of what diversification is. In a community like this practically all of our enterprises are dependent upon the results of agriculture, so that the failure of our crops is reflected in losses among our business institutions, and no matter how we may divide our loans among the various kinds of business, the fact that all the businesses are more or less dependent upon agriculture, in the last analysis, means that all our loans are dependent upon agriculture, so that no real diversification is obtained. The demand for money in one locality, such as this, is seasonal, which means that we have a big demand at one season and a small demand at another, resulting in our having to borrow at one season and to lend on call in New York at another, both of which processes are expensive. Through operating in Greenville we diversify our loans by having a number of them dependent upon an entirely different set of conditions, which insures a diversity, not otherwise obtainable, and in addition, the seasonal demand in Greenville for funds is exactly the opposite from Charleston, with a result that it will avoid, to a large extent, the necessity of borrowing at one season and lending on call in New York at another, thus giving us greater diversity and a more uniform demand."

Here is a distinct recognition of the fact that money was loaned on call in New York either from Greenville or from Charleston which could have been loaned in the State if the institutions in both sections of the State could work together. Greenville, as you know, is a manufacturing town and the peak of demands in that section would naturally come at a different time from the peak of demands at Charleston on the seacoast. I understand that the expectations outlined in this circular letter in 1926 have since been realized and that the institution is successful. That similar conditions obtain in many other States and sections is proven by the testimony of the group bankers recently summoned to the hearing before the Banking and Currency Committee of the House of Representatives. Every one of them stated that they were able through their larger organizations to keep business at home that had before been forced to New York or Chicago. As Mr. Decker phrased it, "We are tired of having the cow fed in Minnesota and milked in New York."

Much interesting information was brought out in these hearings before the Banking and Currency Committee of the House of Representatives on the general subject of branch, group, and chain banking. The hearings were the result of the recommendations made by the Comptroller of the Currency in his annual report, and his interesting and very able statement was heard first. When he had presented all his facts and recommendations it seemed to me that there was evidence of considerable change of opinion on the part of several of the members of the committee, and as the hearings progressed it became evident that there was a rather general feeling that some extension of branch banking would be advisable. Almost all the witnesses, including some of those who came to oppose branch banking, admitted under questioning that there were some places where branches would serve better than small separate corporations. Mr. A. J. Viegel, banking superintendent of the State of Minnesota, in a recent statement, mentioned 154 places in that State which previously had supported banks where there are now no banking accommodations whatever, principally because of failures. About one-half of them he said should have some kind of banking service, but he said he could see no way of safely serving them except through branches.

There was much interesting testimony from the representatives of the new group banking organizations in Minneapolis and St. Paul, in Detroit and in Buffalo. Mr. Decker and Mr. Wakefield who head the two leading group banking organizations in Minneapolis and St. Paul, controlling banks in a territory where failures have been numerous and disastrous, presented rather convincing arguments that their group systems have served a very useful purpose. Both of them denied that they would convert their group banks into branch banks if authority were given them to do so, but they both admitted that their groups included only rather sizeable banks located in rather sizeable towns, and that it would be an advantage if their banks could have branches in the smaller places not now touched by them. Mr. Lord of the Guardian-Detroit group made similar statements, but was rather more willing to admit that branch banking would be more economical and might give better service. With few exceptions the banks in his group are located in cities not smaller than 10,000. Several of the group bankers admitted that if branch banking superseded group banking it would probably result in lower interest rates in the smaller group towns. All of them, however, declared that the banks in their combinations were independent units, each managed by its own local board of directors and each retaining its local pride, even though the stock of the local banks is all owned by holding companies. All thought the group system had some marked advantages, by comparsion with branch banking. In the case of all of these new group banking systems the stock of the local banks has been exchanged for stock in the holding companies, so that the old stockholders may be said to retain an interest in their own banks and to have acquired an interest in all the other banks of the group. Mr. Wakefield of the First Bank Stock Corporation said that his group had started to buy control of banks for cash, but had found that did not work well. People were unwilling to sell for cash but were willing to exchange their stock for stock in the larger corporation. In the Guardian-Detroit group, the holding company stock carries double liability, just as bank stock does.

This system of group banking is new and is certainly different from what has been known for many years as "chain banking" where one man or a group of men have purchased for cash the control of a number of banks. As conducted in the Minneapolis-St. Paul district, in the Detroit district, and by the Marine-Midland group of Buffalo, the groups bear a very strong resemblance to branch banking. The men representing them all declared that no single bank in the system could or would be allowed to fail. They declared also that if any individual or industry in any community had need for loans larger than the loaning limit of the local group bank of the community such loans would be taken care of within the group. I agree with Comptroller Pole that this development of group banking should not be checked by law unless something better can be substituted for it. We pass too many restrictive laws. What we want now is something constructive.

This kind of group banking not only resembles branch banking, but probably would have been called branch banking in the days of the old State banks before the Civil War. One of the model branch banking organizations of that period was the Bank of Indiana, of which High McCulloch, who became the first Comptroller of the Currency, was the president. If you look into the history and structure of the old Bank of Indiana you will find that its branches were pretty nearly independent. As originally organized, the Bank of Indiana was not much more than a board of directors, appointed by the legislature, with certain supervisory and directory powers, while the branches were independently organized banks with separate stock. The Bank of Ohio was also a group of pretty nearly independent banks bound together under a modification of the New York safety fund principle. In those days, of course, the emphasis was on giving security to note issues, but the principles are the same when applied to security for deposits. Deposit banking was something which grew up in the cities and was not much understood for a long time outside of the cities. The notion that depositors did not need any special protection persisted for many years after the national banking act was passed, and Mr. Thomas P. Kane, in his book, "The Romance and Tragedy of Banking," published in 1922, declared that with all the numerous amendments of the national banking act passed since 1864 not one "can be said to have had for its object the increase of the security of depositors in national banks" until the Federal reserve act was passed.

The resemblance of the group banks of to-day to the branch banks of the days before the Civil War suggests that with proper legal recognition and direction they might be developed into branch banking institutions somewhat of the old type—the branches retaining a considerable amount of independence, but being jointly responsible for the debts of every branch in the group as was the case in the old Bank of Indiana, and each group supervised and in a measure controlled by a central board of directors, under governmental supervision. Possibly such a system of branch banking—a sort of compromise between group and branch banking—would meet the chief objection of many of the ardent opponents of branch banking. I mention this merely as a possibility, and without much confidence that such systems would take care of the very small towns where most of the banking failures occur. It should serve to bring to mind that branch banking need not necessarily be of one pattern. Branch banking can be organized so as to give the branches a certain amount of independence, and can be organized without any "parent bank"—simply a group of banks in different places operating under one corporation. The head office, where the directors meet and where the corporation books are kept, need not be a bank. I am not quite sure that there must be a "head office"—at any rate one of the institutions in the South operating two banking offices—banks recently consolidated—maintained in recent letters to the Federal Reserve Board that there was no "parent bank" involved, and no "head office." Therefore, they thought they should be allowed to remain in the Federal reserve system. I thought so myself but our counsel could not be convinced.

"Whether you like it or not," said Mr. Decker of Minneapolis in his recent statement to the Banking and Currency Committee, "size is fundamental in many lines of business. It certainly is in the banking business." Now, keeping always in mind the main purpose of making our country banks large enough to take care of a larger share of the local business, some of which now goes to New York, and large enough and with diversification enough to be able to stand up in adverse times, what limits should be set, with relation to capital and to extent or number of branches? Mr. Henry Dawes, former comptroller represents the extreme position of opposition to branches, but admits the necessity of larger banks. He cites the fact that 88 per cent of the failures of the last nine years have been banks with a capital less than $100,000, and recommends that no banks be chartered in the future with a capital less than $100,000. If I understood his recent statement to the Banking and Currency Committee he would not permit smaller country banks to consolidate so as to obtain the requisite capital, if consolidation involved the maintenance of more than one office, in different places. His idea seemed to be that unless a town or community was large enough to maintain an independent bank with a capital of $100,000 it should depend on the nearest large town—i. e., it should be deprived of convenient banking service. Mr. Dawes took the ground apparently that we must either have nation-wide branch banking, or none at all outside of cities. "It seems to me," he said, "there is no room for compromise on this subject and that a determination should be reached as to whether the United States wishes to embrace a national system of branch banking or to preserve its coordinated independent units. It can not do both."

I disagree wholly with this dogmatic position. There was more branch banking in the United States 100 years ago, in proportion to population and banking resources, than there is to-day, and there always has been some branch banking in the United States. In fact there always has been some branch banking in the national banking system, and I think it can be shown that not quite all of it came in through conversion of State banks. There is no clear evidence that the Congresses of Civil War days in enacting the national banking act had any intention of prohibiting branch banking, and I am informed that the comptroller's office did not finally pass upon the question until 1902. In 1911 Attorney General Wickersham delivered an opinion adverse to branches in the case of the Lowry National Bank of Atlanta, an opinion later much modified by Attorney General Daugherty who, October 3, 1923, found in favor of additional offices within city limits. The matter was never definitely decided by the Supreme Court, the St. Louis case in 1924 having turned on enforcement of a State law. Now and then national banks opened outside offices and sometimes they withstood the comptroller's criticisms for a considerable period. The Citizens National Bank of Newport, N. H., was given a certificate by the comptroller on March 27 last for the operation of a branch at Warner, in an adjoining county, on the ground that the branch had been operated for the past 25 years. There are to-day (April 8 figures) 273 banks in the United States maintaining 570 branches outside so-called city limits without counting California. Twelve of them are national banks maintaining 28 branches. North Carolina heads the list with 34 banks maintaining 66 outside branches. California has two less banks (32) with outside branches, but the number of branches is much greater, 547, of which 313 are branches of national banks. Of the banks maintaining outside branches 52 are in New England, 22 of them in Maine, the Maine banks maintaining 57 branches. The Maine law, permitting branches in the county of the parent bank and any adjoining county seems to me excellent, and the limit it provides would be sufficient, I think, in any Eastern State. In Western States where there is much less diversification of industries the limit should doubtless be much wider, perhaps in some districts comprising more than one State.

Branch banking can be limited in any way desired—by territory to be covered, by number of branches to be allowed each bank, or by the size of the places in which branches may be organized. As four-fifths of all bank failures have occurred in places of less than 2,500 inhabitants, the law might provide that no more unit banks should be incorporated in places of less size, branches to be authorized instead. There is no reason why we should decide now with relation to what kind of banking may seem desirable to the people 50 or 100 years from now, and no reason why we should not apply a desirable and well-proven remedy within limits now because of fear that some future generation may decide to enlarge the limits.

Banks have a common law right to establish branches. This was generally recognized in the early days of our Nation's history. In many States they have lost this right through restrictive legislation, some of it not originally intended to prohibit branches. The obvious thing to do is to repeal some of the restrictions and allow some freedom of natural development. I do not believe that there would be any rapid or dangerous development if the establishment of branches were permitted within trade areas as the comptroller suggests. I do not believe that any comptroller would permit a dangerous or a very rapid development, and the history of branch banking where long authorized by State laws seems to indicate (with the single exception of California) that development would proceed slowly, anyway. Branch banking is really a country bank proposition. New York and Chicago bankers are generally opposed to it (witness the testimony of Mr. George W. Davison, of the Central-Hanover), having learned many years ago that correspondent banking serves them best. As long as the banking units out in the States can be kept comparatively small, the biggest and best business must come to the big cities, and the country banks themselves, through their correspondent accounts, must furnish a large part of the funds with which this business is taken care of. The present system suits Wall Street bankers exactly, and why should they worry over the continued failures of a lot of little banks off somewhere in the distant prairies?

I suggest as the first amendments necessary to remedy the present disgraceful situation with relation to bank failures that national banks be given the same privileges with relation to branches that State banks have, and, second, that in all States national banks should be permitted to establish branches through consolidations in trade areas, which might well start with the limits of the present Maine law, with discretion to the comptroller for extension where necessary in order to secure the diversification essential to safety.

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[New York Times, Thursday, June 19]

## Topics in Wall Street

### SENTIMENT VERSUS LOGIC

There is evident in most discussions of the subject of branch banking among bankers an interesting divergence between belief and desire. Since most bankers are unit bankers, they tend to grow a little sentimental at the prospect of the ultimate extinction of the unit bank. They speak scathingly of banking on a "chain-store basis" and refer to the callousness of a branch bank manager, contrasted with the sympathetic understanding of the old-fashioned unit banker whose dealings are largely with his personal friends and acquaintances. Yet, having expressed their unalterable opposition to branch banking, most of them sigh heavily and admit that the extension of that system is inevitable. The notion that the logic of events is forcing an extension of branch banking received the indorsement of Governor Young of the Federal Reserve Board in St. Paul yesterday, when he told Minnesota's bankers that, like Comptroller of the Currency Pole, he favored an extension of the branch system of banking.

[New York Times, Thursday, June 19]

## Roy Young Backs Branch Banking

HE TELLS MINNESOTA BANKERS THE UNIT SYSTEM HAS FAILED IN FARMING AREAS. POINTS TO MANY FAILURES. FORTY PER CENT OF THE BANKS IN 7 AGRICULTURAL STATES HAVE CLOSED IN 10 YEARS, HE SAYS

St. Paul, June 18.—In some sections of the United States the unit system of banking has broken down, necessitating a reorganization to fit the new order of things, Roy A. Young, governor of the Federal Reserve Board declared before the Minnesota Bankers Association to-day when he indorsed the stand of the Comptroller of the Currency for extension of branch banking within trade areas.

After calling attention to large losses to depositors through bank failures chiefly in the agricultural districts, Governor Young asserted that "had we been willing before the war to have countenanced branch banking in a limited trade area, I believe that many of the unfortunate failures of the last decade might have been avoided."

Mr. Young saw limitations in group banking which had developed because of restrictions on the branch system, but expressed the belief that "some type of compromise between unit banking and branch banking" will be worked out.

"Two forces are bringing about the shifting forms of banking organization", he said. On one hand, the large volume of bank failures in recent years, and on the other, changes in economic and social conditions which have made a readjustment of banking organization and practice inevitable.

"Unit banking has been the natural complement of the individual initiative and enterprise which has so rapidly brought the United States to the first rank of economic powers," Governor Young said.

"Notwithstanding all the rapid alteration in the environment about us in general and the evolution of business forms in particular, the unit banker still has his place and service to perform. He will have it for a long time to come, and I can see no reason why he should not always be an important part of our banking system.

"However, some unpleasant facts must be faced with respect to the appalling number of bank failures recorded in various parts of the country during recent years. During the nine-year period prior to June 30, 1929, about 5,000 banks closed their doors in the United States, tying up deposits in the neighborhood of $1,500,000,000.

"In the history of suspensions, it is a remarkable thing that no important failures among banks in the larger cities have occurred, while in seven agricultural States 40 per cent of all the banks in existence in 1920 have failed."

"In many small communities the banking business is drying up so that it is increasingly difficult for the small bank to make a profit," Governor Young said. He added that the management of such a bank in order to show better earnings is constantly under the temptation to take greater risks, with the result that disaster follows.

The automobile, he said, takes the bank depositor to the larger town, and once a patron of the bigger movie shows and the shops with wider variety of goods "nothing is more natural than that he should find it convenient to do his banking business there also. So his account is moved from the small bank to the larger one and the smaller banker loses deposits."

"So we have an entirely different economic and social pattern from that under which our unit system developed," he concluded, "making it necessary for the banking business to be revamped to fit the new order of things."

This received very favorable comment on the part of our directors, and several of them spoke to me about the possibility of employing Mr. Platt in the Marine-Midland Corporation. Those directors were local directors of the Midland Trust Co.

Meanwhile, we had felt the need in the Marine-Midland Corporation of an economist and an adviser. As a matter of fact, I had felt, after reading this speech of Mr. Platt, that he would be a desirable man if it were possible for us to secure him.

Then one or two of our directors spoke to me about it, and I felt that I would like to talk to Mr. Platt about it. So on August 20 I wrote to Mr. Platt at Washington the following letter:

DEAR MR. PLATT: There is a matter that I should like to discuss with you some time at your convenience. I could arrange to meet you in New York any day next week, except Monday or Friday.

About a week later, I met him in New York by appointment and made him an offer to come with us which he took under advisement. Then I received this letter in reply from Mr. Platt:

FEDERAL RESERVE BOARD,
*Washington, September 3, 1930.*

MR. GEORGE F. RAND,
*President Marine Trust Co., Buffalo, N. Y.*

DEAR MR. RAND: I came back to Washington yesterday for a meeting to approve the salary voted for Governor Young by the directors of the Boston Federal Reserve Bank and my present expectation is to return to Madison late this afternoon. I have consulted a few people in whom I have confidence with relation to your offer, including Mr. Case, of the Federal Reserve Bank of New York, and the Comptroller of the Currency, both of whom speak in the highest terms of the Marine Midland organization. Mr. Case has set forth the pros and cons of the proposition pretty completely, but his general conclusion is that the position offers very interesting possibilities. Of course, I shall hate to sever the pleasant relationships of 10 years on the Federal Reserve Board, but I think that my resignation would not embarrass the President and it is even possible that he may want to reverse the tradition of the board to look got a governor in the New York district. All the New York representatives on the Federal Reserve Board, beginning with Paul Warburg and ending with myself, have been vice governors and it has been the generally accepted supposition that it would not do politically to appoint a New York man as governor. Most of the men mentioned in the various rumors in the newspapers are, as I happen to know, not available, and one of them could be appointed as a resident of another district.

Anyway, it seems to me there is no reason why I should delay further an answer. The proposition looks attractive to me, I have long been interested in group and branch banking and shall welcome an opportunity to have some active part in the development of such an organization as yours.

The matter of salary was not exactly settled at our conference in New York on Thursday, and while congenial interesting work that I feel sure I can do is of more importance, it would seem to me a salary of $24,000 or $25,000 might be warranted. Twenty-four thousand dollars would be exactly double my present salary and would be sufficient.

I have spoken somewhat tentatively to the Secretary of the Treasury and while I am not sure yet that I can make a definite statement as to the time I can leave the board it would seem that everything could be settled by October 1, or if not then, by the 15th. My talk with you and with Mr. Stauffen left the impression that the matter of a week or two one way or the other was not important.

Apart from the board's affairs, I own a house here in Washington and shall have to rent a house or an apartment elsewhere—probably at Garden City, Long Island, where one of my sisters lives. In fact, the possibility of living at Garden City and the fact that my daughter rather likes the idea were not without their influence in my decision. In short, subject to a little more definite information with relation to salary and to possible, though not probable contingencies with relation to the appointment of my successor, you may regard this as an acceptance of the proposition. I have spoken in strict confidence, however, to those with whom I have consulted and should not want any announcement made until I can be sure that the president can obtain a man from the New York district who would be entirely satisfactory.

There are doubtless a good many things I neglected to ask you at our meeting in New York, among them the question whether you are now publishing or would want to publish a bulletin. As you spoke of the position as being similar to that of Leonard Ayres, I suppose I might be called an economic adviser. It seems to me that such an organization as the Marine Midland Co. would have exceptional opportunities for publication of a bulletin, perhaps with special emphasis on industries in New York State and perhaps with brief reports on economic conditions from each of the neighborhoods represented in the system. Such work, of course, would be very much in my line.

I may add that I have a personal secretary who is an excellent stenographer and not only looks after all my personal affairs but writes practically all my letters, takes dictation for my addresses, understands something of the subjects on which I write and saves me a lot of time. He might want to come with me. He is a married man with a family and at present receives $3,000, paid by the Federal Reserve Board.

Yours very truly,

EDMUND PLATT.

That is the extent of my negotiation with Mr. Platt. He accepted our offer. We pay him a salary of $22,000 a year. We took his secretary over. I never had any conversation with anyone connected with the Federal Reserve Board or with Mr. A. A. Cook or with any person outside of our organization. The idea originated in Buffalo with me. We had no connections with the implications that Mr. McFadden has made.

Senator CAREY. You suggested Mr. Platt to your directors——

Mr. RAND. I suggested to our directors—in fact, it came about when three or four of us were talking. They said that was a good speech; Platt would be a good man for us. I do not know whether I suggested it first or whether they suggested it first.

Senator CAREY. Do you remember who those directors were?

Mr. RAND. One of them was our general counsel in Buffalo, Edward H. Letchworth. Another was Walter P. Cooke, who is a partner of Mr. Letchworth.

Senator WAGNER. And not related to the Mr. Cook here?

Mr. RAND. No relation. Another was Mr. Seymour H. Knox.

Senator GOLDSBOROUGH. Then, your whole attention was directed to Mr. Platt by reason of this speech at Poland Spring?

Mr. RAND. It was, and by no outside source whatsoever.

Senator FLETCHER. Is that group banking advocated by Mr. Platt similar to the plan advocated by the Comptroller of the Currency?

Mr. RAND. There have been so many plans suggested that I really do not know whether it is or not. It has certain features of similarity with the plan suggested by the Comptroller of the Currency, but Mr. Platt did not really offer any specific plan; he more or less discussed various plans and the need for some kind of revision in our banking laws along the lines suggested by the Comptroller of the Currency. We had formed our Marine Midland Corporation which evidently was a source of great interest to Mr. Platt, and he was quite complimentary to the Marine Midland Corporation and the way we had set up the organization. In fact, the more he looked into it the more he thought we had a scheme that was very advantageous for our part of New York State.

Senator FLETCHER. How many banks have you?

Mr. RAND. We have 16.

Senator FLETCHER. You distinguish between that plan of group banking and chain banking? Would you call yours a chain bank?

Mr. RAND. No; we do not like the word "chain." We are a group bank.

Senator BROOKHART. You have a holding corporation that holds the majority of the stock in all 16 of these banks?

Mr. RAND. Yes, sir.

Senator CAREY. I think that you stated something in your letter about Mr. Case in New York.

Mr. RAND. Mr. Platt, when I first talked with him, said he was in the relationship of a public servant, and that, of course, he could not take any action without talking with the Comptroller of the Currency and with the President, and he would like to discuss this matter with Mr. Case, who was chairman of the board of the New York bank and who was a personal friend of long standing.

Senator CAREY. You never talked with Mr. Case about it?

Mr. RAND. I never talked with Mr. Case.

Senator FLETCHER. Do you know Mr. Meyer, Mr. Rand?

Mr. RAND. I never met Mr. Meyer until this morning, sir. I have a very high regard for Mr. Meyer, and as a banker we think he is an ideal man to head the Federal reserve system.

Senator BROOKHART. The group bankers and the chain bankers all think that Mr. Meyer is an ideal man.

## TESTIMONY OF ROY A. YOUNG, GOVERNOR OF THE FEDERAL RESERVE BANK OF BOSTON

(The witness was duly sworn by the chairman.)

Senator CAREY. Give your full name, please.

Mr. YOUNG. Roy A. Young. I am a resident of Brookline, Mass., and am governor of the Federal Reserve Bank of Boston.

Senator CAREY. You heard the testimony of Mr. McFadden?

Mr. YOUNG. I did.

Senator CAREY. The questions that I will ask you are in line with the statements that he made. The first question is, did you discuss your resignation with Mr. Meyer previous to your resigning from the board?

Mr. YOUNG. Never.

Senator CAREY. How did you happen to resign?

Mr. YOUNG. Well, I addressed a letter to the President of the United States at the time I resigned, which was a rather embarrassing letter to write because we do not like to air our own personal finances. I would like to read that letter to this committee, and would be glad to amplify it in any way that the committee cares to have it amplified.

Senator WAGNER. What is the date of that letter?

Mr. YOUNG. This was written on August 27, 1930. It reads as follows:

> MY DEAR MR. PRESIDENT: For some time it has been necessary for me to consider accepting a more remunerative position. As you know, the law does not permit me to accept employment with a member bank, where my experience would naturally lead me. In addition the time for leaving has been a factor because I have felt that I was not in a position to accept employment elsewhere, regardless of how attractive an offer might be, when the credit conditions of the country were strained or disturbed. Obviously, these factors have limited the opportunities.
>
> Now, however, it is clearly evident that the credit structure of the country is in an easy and exceptionally strong position, and an opportunity has come to me from the directors of the Federal Reserve Bank of Boston; that is, they have honored me by offering to me the governorship of that bank, a responsibility that I am very anxious to undertake and feel that I should. I, therefore, am tendering my resignation as governor and a member of the Federal Reserve Board to become effective as soon as accepted by you.
>
> I am taking this action with many regrets because I have thoroughly enjoyed the three years that I have been a member of the board, and that I have profited greatly in experience, associations, and friendships there can be no doubt. I am most grateful to everyone who has made it possible for me to accumulate such valued assets, and I particularly take this opportunity to thank you for the many things you have done, both officially and privately. You have been most considerate on all occasions and I am deeply indebted to you.
>
> I am, Mr. President,
>
> Yours respectfully,
>
> R. A. YOUNG, *Governor.*

That was my statement at that time, and I have no occasion to change it at all. Congressman McFadden has made an inquiry. I resent it somewhat, but I am going to answer it. I accepted no bribe to accept the governorship of the Federal Reserve Board in Washington. I accepted no bribe when I left.

Representative MCFADDEN. May I say, Mr. Chairman, that I did not mean to infer anything of that kind. That was a misunderstanding.

Senator BROOKHART. I think you did not, either.

Mr. YOUNG. Well, what is a bonus?

Senator CAREY. I think that question was asked in regard to Mr. Platt. I think that Mr. McFadden suggested that I ask if Mr. Platt received any bonus.

Mr. YOUNG. I will answer the other question. I had no understanding as to future employment when I went on the Federal Reserve Board from anybody.

Senator BROOKHART. What salary were you getting before you went on the board?

Mr. YOUNG. I was getting $25,000 a year in Minneapolis.

Senator BROOKHART. And you quit that for $12,000 on the Federal Reserve Board?

Mr. YOUNG. Yes, sir.

Senator BROOKHART. What salary do you get now?

Mr. YOUNG. $30,000.

Senator WAGNER. Men frequently do that for the sake of an opportunity to serve in public office. I did that. I resigned a place on the bench that paid me a good deal more than I received as a United States Senator.

Senator BROOKHART. You are sticking to your senatorship, I know.

Senator FLETCHER. How long does your engagement last?

Mr. YOUNG. At the pleasure of the directors of that bank.

Senator CAREY. Did you discuss the matter of your resignation with Mr. Meyer?

Mr. YOUNG. Never.

Senator CAREY. And your resignation was really brought about by an offer that you had from the Boston Federal Reserve Bank?

Mr. YOUNG. That is correct, although it was generally known by some of my friends, Senator, that it was only a question of time when I would leave the board on account of my own financial affairs, and that I was looking for employment elsewhere. I frankly state that in this letter.

Senator CAREY. And there was no effort to get you to resign in order that Mr. Meyer be appointed?

Mr. YOUNG. None whatever.

Senator FLETCHER. Whom did you succeed at the Boston bank?

Mr. YOUNG. Governor Harding died, I think, in March of 1930, and that bank operated without a governor from March until I went there in September.

Senator FLETCHER. Governor Harding was formerly a member of the board.

Mr. YOUNG. Governor Harding was formerly a member of the Federal Reserve Board, yes, sir.

Senator CAREY. And he went to Boston.

Mr. YOUNG. Yes, sir.

Senator CAREY. Do you know Mr. Cook, who testified here this morning?

Mr. YOUNG. I met him this morning. I never knew him until this morning.

Senator WAGNER. I think the thing that we wanted cleared up was the insinuation made that you by some arrangement that was very vague—I could not understand it—were to leave the board, so that Mr. Meyer could become chairman.

Mr. YOUNG. There was no arrangement with me of that kind, Senator.

Senator WAGNER. When did you first hear of any such thing?

Mr. YOUNG. My leaving the board?

Senator WAGNER. No; that such a charge was made by Congressman McFadden.

Mr. YOUNG. I am not sure. It is in Congreesman McFadden's letter, I think, that he sent to Senator Norbeck.

Senator WAGNER. That was the first intimation you had of it?

Mr. YOUNG. That was the first intimation I had of it, Senator.

Senator CAREY. Was your resignation in any way connected with Mr. Platt's resignation?

Mr. YOUNG. It had no connection whatever.

Senator CAREY. You had no discussion with Mr. Platt about it?

Mr. YOUNG. I never talked with Mr. Platt about it. He was away on a vacation at the time. I did talk with my colleagues on the board. I talked with Mr. James and I talked with the Comptroller of the Currency and the Secretary of the Treasury. I thought they were my old friends and were entitled to the information that I was contemplating making a change, but I did not talk to Mr. Platt. He was away on vacation and I have not seen Mr. Platt since the first of July.

Senator BROOKHART. How did the negotiations start with regard to your position at Boston?

Mr. YOUNG. Mr. Curtis, the chairman of the board in Boston, asked me if I would consider the governorship.

Senator BROOKHART. When was that?

Mr. YOUNG. Well, I could give you the exact date, Senator, but I think it was about August 10, may be the 15th.

Senator BROOKHART. Did that occur by letter?

Mr. YOUNG. No; he asked me to meet him in New York.

Senator BROOKHART. He wrote you a letter, did he not?

Mr. YOUNG. He called me by telephone, I think, and asked me if I would meet him in New York. I met him at the Harvard Club in New York, and he said that he had not discussed this with his directors, but asked me if I would consider the governorship of the Federal Reserve Bank of Boston. I told him that I would have to talk it over with my wife. She happened to be in northern Michigan at the time, and I wanted to talk it over a little bit with the Secretary of the Treasury, and I wanted to feel sure that it was all right with the President of the United States.

Senator BROOKHART. Did you talk with the President before you wrote this letter to him?

Mr. YOUNG. Yes. I talked to the President the day before, on August 26. That is the only talk I ever had with the President about leaving. I went over and talked it over with him. I felt confident, however, that the Secretary of the Treasury had kept the President informed from time to time that I was trying to locate elsewhere.

Senator BROOKHART. Was anybody present but you two at this conference in New York?

Mr. YOUNG. That is all.

Senator CAREY. The Secretary of the Treasury knew, something before you resigned that you were looking for another position?

Mr. YOUNG. The Secretary of the Treasury has known it since, I would say, in January or February of 1930.

Senator FLETCHER. Did you know that Mr. Platt was contemplating leaving the board?

Mr. YOUNG. No; I did not.

Senator FLETCHER. Do you suppose the Secretary of the Treasury knew that?

Mr. YOUNG. I have no idea.

Senator FLETCHER. Did any of the other members of the board know it?

Mr. YOUNG. I do not think there was another member that knew anything about it.

Senator FLETCHER. It is singular that two members of the board should arrange at about the same time regarding leaving, without the board knowing something about it.

Mr. YOUNG. My action was entirely independent, and it is certainly conclusive from the letter that Mr. Platt wrote, that Mr. Rand just read, that he was acting independently.

Senator GOLDSBOROUGH. Mr. Young, you may have answered this question to Senator Wagner, apropos of the statement made by Mr. McFadden that upon retirement of yourself and Mr. Platt, Mr. Meyer had an ambition to become the president of the Federal Reserve Board. That carries with it the intimation that Mr. Meyer may have influenced in some way, directly or indirectly, your retirement. Is that correct, or not?

Mr. YOUNG. That is incorrect. Mr. Meyer had no influence whatever on my leaving the board. And I want to say something further for the record, if I may. I have known Eugene Meyer for 10 years. I have come in pretty close contact with him, and when it was announced that he was to become governor of the Federal Reserve Board, I was one of the happiest men in America, because I know the duties of the governor of the Federal Reserve Board and I know the qualifications necessary, and I do not know of a better man in America.

Senator BROOKHART. In reference to these qualifications, I read in Senator Glass's statement when he presented the Federal reserve law that one great object of it was to stop the accumulation of the surplus credit of the country for New York speculation. It did not do it, did it?

Mr. YOUNG. No. A great deal of credit did center in New York for speculation.

Senator BROOKHART. A good deal before we had the Federal reserve at all?

Mr. YOUNG. I suspect much more; yes.

Senator BROOKHART. Mr. Meyer would be in sympathy with that proposition?

Mr. YOUNG. I doubt it very much. I was not in sympathy with it. But it went there anyway. I could not stop it, Senator, and nobody else could stop it.

Senator BROOKHART. Under the law you could not stop it?

Mr. YOUNG. Under the law I could not.

Senator BROOKHART. I agree with you in part of that, but it is plain that the administration of the Federal Reserve Board could have stopped a good deal of it by denying rediscount rates to those banks that made speculative loans.

Mr. YOUNG. I doubt it.

Senator FLETCHER. Did you try it?

Mr. YOUNG. Yes, sir.

Mr. MEYER. Mr. Chairman, there is just one point I would like to ask Mr. Young about. I have given a good many years of my life to public service, and I do not consider it a sacrifice; I consider it a privilege. In the last 10 years the principal part of my activity has been to do something, to the best of my ability, in behalf of the agricultural interests which I thought in 1921 were suffering too greatly and in ways that could be helped. Governor Young, you were governor of the Federal Reserve Bank of Minneapolis during the period of the agricultural credit activity of the War Finance Corporation?

Mr. YOUNG. I was.

Mr. MEYER. And your bank acted as a sort of fiscal agent of the War Finance Corporation in handling the business locally until the agency was later established independently, because you said the work was too much. They loaned, as I remember it, in the Federal reserve district of which you were the head, about $60,000,000 to about 1,600 country banks and livestock loan companies. I would like to ask you whether you think the work of the War Finance Corporation was helpful to the agricultural interests, or not.

Mr. YOUNG. I will answer that by saying that it was helpful, well managed, and prevented conditions in that territory from developing into a real catastrophe.

Mr. MEYER. Do you know anything more that could have been done than we did in the War Finance Corporation for the help of the people in that territory?

Mr. YOUNG. Nothing.

Senator BROOKHART. What States are included in that territory?

Mr. YOUNG. Montana, North Dakota, South Dakota, Minnesota, the Upper Peninsula of Michigan, and I think 24 counties in the northern part of Wisconsin.

Senator BROOKHART. About what was the value of the agricultural production in that territory?

Mr. YOUNG. I would have to refer to records.

Senator BROOKHART. Well, it was more than a billion dollars, was it not, even at the low prices that the farmers had to take?

Mr. YOUNG. I would be just guessing at it.

Senator BROOKHART. And they got the magnificient sum of $60,000,000 credit through the Federal reserve system?

Mr. YOUNG. That is correct.

Senator BROOKHART. That must be the reason that the catastrophe has hit the farmers of that whole country.

Mr. YOUNG. If I recall correctly, the banks of that territory had $1,500,000,000 in deposits, and the larger part of it was already loaned to agriculture. In addition, the Federal reserve bank at Minneapolis at one time loaned as high as $118,000,000, and the War Finance Corporation came in on top of that and took what the Federal reserve could not take, to the extent of $60,000,000.

Senator BROOKHART. How much was there in New York on speculation?

Mr. YOUNG. At that time?

Senator BROOKHART. Yes.

Mr. YOUNG. Practically none.

Senator BROOKHART. How much was invested in long-time bonds in New York at that time?

Mr. YOUNG. I would have to check the records, but guessing I would say one-fifth, maybe, of the total deposits.

Senator BROOKHART. One-fifth of their total deposits were in these long-time bonds and were not serving the farmers at home?

Mr. YOUNG. They may have been municipal bonds in their own territory. They may have been bonds of their own industries in their own territory.

Senator BROOKHART. Those are not farmers' bonds?

Mr. YOUNG. No. Obviously there were some farm-loan bonds.

Senator BROOKHART. I just wanted to call attention to the fact that this protection to the farmer that you talk about has brought him to the lowest stage right now that he has been in for 24 years and has ruined agriculture.

Mr. YOUNG. No one regrets that any more than I do, and no one has worked harder to prevent it than I have, even when I was governor of the Federal Reserve Board.

Senator FLETCHER. Were these loans by the War Finance Corporation made to farmers or to banks?

Mr. YOUNG. They were made to banks. If I remember correctly, Mr. Meyer, in addition you loaned $16,000,000 to cooperatives?

Mr. MEYER. We loaned some to cooperatives and some to banks, but only on farmers' notes.

Senator BROOKHART. And some 6,000 banks failed mostly out in that territory.

Mr. YOUNG. Well, I would not advertise that territory too badly. I think in the ninth Federal reserve district there have been 1,600 bank failures. Those figures are all in the possession of the Federal Reserve Board.

Senator BROOKHART. Up to 1920, the bank failures in that territory were about the same as they were in the eastern districts?

Mr. YOUNG. Just about.

Senator BROOKHART. But since 1920, we got this War Finance Corporation and the intermediate credit and Federal reserve bank to help us. Since that, they have increased from about 300 to 2,500 per cent over the failures in the eastern territories, have they not?

Mr. YOUNG. That is correct.

Mr. MEYER. Just for the record, Senator, the War Finance Corporation's loans were made largely in 1921 and 1922. After that, the corporation loaned comparatively small amounts.

Senator BROOKHART. That is, when this trouble began with the western banks, too.

Senator FLETCHER. You said you were well acquainted, and, of course, you are, with the duties and functions of the Federal Reserve Board. You know what is required of the governor of the Federal Reserve Board. Will you specify to some extent the principal duties and functions of the Federal Reserve Board?

Mr. YOUNG. Well, as I see the Federal Reserve Board, with the 12 Federal reserve banks that we have and the strong indication under the law that those banks should operate as autonomous institutions, I see the Federal Reserve Board as a coordinating body and a supervising body to a certain extent. I believe that it should refrain from being an operating body as much as possible. With 12 different sections of the country, it is very easy to have 12 different ideas. It is very easy for 12 different institutions to proceed in 12 different directions, the actions of one nullifying the actions of the other. I see the board as a coordinating body bringing those ideas together.

Now, the board, perhaps, has more power, more discretionary power, than any Government agency that I know of. I should regret very much to see the board use that power except for a good cause.

As a member of the Federal Reserve Board, you can not confine your considerations to the agricultural questions alone. As a member of the board you have got to give consideration to the other parts of the country. You have got to know more or less about national finance and international finance. It can not be avoided. I have tried to make my statement as concise as I possibly could, Senator.

Senator FLETCHER. To what extent do they have this supervisory power? Do you mean over the Federal reserve banks?

Mr. YOUNG. They have veto power over discount rates. They have veto power over bill rates. By agreement they have veto power on open market operations, and, specifically under the law, they have veto power and an initiative power on all foreign transactions.

Senator FLETCHER. They fix the salaries of the governors of the different banks?

Mr. YOUNG. They fix no salaries. They approve all salaries. The salaries are fixed by the directors of the Federal Reserve Bank, and they are approved or disapproved by the board.

Senator FLETCHER. Suppose they are disapproved?

Mr. YOUNG. They do that quite frequently.

Senator FLETCHER. In effect, that is fixing salaries, is it not?

Mr. YOUNG. Yes; in effect that is fixing salaries.

Senator FLETCHER. They exercise considerable control over and influence the rediscount rates?

Mr. YOUNG. The Federal Reserve Board?

Senator FLETCHER. Yes.

Mr. YOUNG. With the veto power; yes. Discount rates are usually initiated by the bank. However, if I as governor of the Federal Reserve Board felt that a lower rate was needed in any particular district, I would have no hesitancy in discussing that situation with the directors of that bank and presenting my argument as to why I thought it should be done. They might not agree with me and the rate would not be initiated then.

Senator FLETCHER. Is the chairman of the board given power to do many things without consulting the members of the board?

Mr. YOUNG. Nothing. Everything is by board action.

Senator FLETCHER. He simply carries out the orders and directions of the board, does he?

Mr. YOUNG. Yes, sir.

Senator FLETCHER. He can make suggestions and proposals to them, but they have to pass on them?

Mr. YOUNG. That is correct.

Senator FLETCHER. How often does the board meet?

Mr. YOUNG. It meets every day at 11 o'clock and adjourns at 1 o'clock, with the exception of Saturday, and except during the vacation period when there may not be a full board. That program is frequently interrupted by conferences elsewhere, and I suspect there is not any meeting of the board to-day. That was the regular procedure, to meet every day at 11 o'clock, while I was on the board, and I think it has always been that way.

Senator BROOKHART. What effect does raising and lowering of the discount rates have on commodity prices?

Mr. YOUNG. Very little, in my opinion, Senator. I think that the cost of money is a contributing factor toward the price of commodities, but I do not believe it is a determining factor.

Senator BROOKHART. Does not the discount have something to do with the cost of money?

Mr. YOUNG. It does; yes.

Senator BROOKHART. Therefore, when the discount rate is raised or lowered, it is going to have a general effect on commodity prices, is it not?

Mr. YOUNG. It may, and it may not. As I say, so many factors must be taken into consideration in commodity prices that the cost of money, in my opinion, is only one factor. Sometimes it may be an important factor, and many times it may not be any factor at all. For instance, for the last year we have been coming down in discount rates, and commodity prices have also been going down.

Senator BROOKHART. That is because of the stock panic and its effect on every legitimate business, is it not?

Mr. YOUNG. I would not say that. It has had some effect.

Senator BROOKHART. It has had a far-reaching effect?

Mr. YOUNG. Yes; it has a far-reaching effect.

Senator BROOKHART. It is the main cause of the present depressed situation, is it not?

Mr. YOUNG. Well, world-wide conditions have contributed to this.

Senator BROOKHART. Were not world wide conditions caused by our big stock collapse in the United States more than any other cause?

Mr. YOUNG. No; I would not want to put it that way.

Senator BROOKHART. I notice that Lloyd George is quoted as making that claim.

Mr. YOUNG. Well, that is a debatable question.

Senator BROOKHART. Well, it had an effect all over the world, did it not?

Mr. YOUNG. There is no question about it.

Senator BROOKHART. All stock charts went down when ours went down. Is not that true?

Mr. YOUNG. It is true so a degree; yes.

Senator BROOKHART. Not as much in Great Britain because business is more stable there than it is in the United States, anyway. Is not that true?

Mr. YOUNG. Will you please repeat that?

Senator BROOKHART. I say, stock value did not go down as much in Great Britain because all business is more stable under English methods than under our methods.

Mr. YOUNG. I am not familiar with that.

Senator BROOKHART. I have some charts from the Federal Reserve Board that show that. Now, you say that you can not consider agricultural interests alone in the policies of the Federal Reserve Board.

Mr. YOUNG. But just a moment. I did not say that.

Senator BROOKHART. I so understood you. What did you mean by that statement?

Mr. YOUNG. I said I could not consider agricultural interests alone; that I would naturally have to give consideration to industry and commerce throughout the United States.

Senator BROOKHART. That is what I understood your statement to be.

Mr. YOUNG. Well, I wish you would correct it.

Senator BROOKHART. Now, at the meeting of May 18, 1920, the one known as the "deflation meeting," the Federal Reserve Board did consider the railroad proposition alone and passed a resolution to send a committee of five to the Interstate Commerce Commission and ask an increase in railroad rates?

Mr. YOUNG. I was not on the board at that time.

Senator BROOKHART. That was before your time, but would it not have just as good a right to advise lending money on farm products at a higher price, as it would to raise railroad rates?

Mr. YOUNG. Well, I am not familiar with that subject at all, Senator.

Senator BROOKHART. You would condemn that sort of action in the Federal Reserve Board, then, in picking out a subject like railroads when they are deflating all the rest?

Mr. YOUNG. I was governor of the Federal Reserve Board in Minneapolis in 1920, and I was not deflating anything. I was pouring money over that counter just as fast as it could go.

Senator BROOKHART. Who was getting it?

Mr. YOUNG. The farmer was getting it. The country bank was getting it.

Senator BROOKHART. As I remember, Armour & Co. got $60,000,000 on 10-year notes. Was any of that sold in your territory?

Mr. YOUNG. I do not remember whether it was or not.

Senator BROOKHART. And Swift & Co. got $50,000,000 a little later on, I think, 5-year notes.

Senator WAGNER. This is very interesting, but it has nothing to do with the subject that we have under consideration.

Senator FLETCHER. What contact with the security market could the Federal Reserve Board maintain?

Mr. YOUNG. With the security market?

Senator FLETCHER. Yes.

Mr. YOUNG. No contact with it at all, other than the volume of credit that is being used as brokers' loans and security loans, and that is purely statistical. It is not necessary for the Federal Reserve Board to have a telephone or stock ticker or anything of that kind.

Senator FLETCHER. What control could the Federal Reserve Board have over the gold supply or influencing of stable values?

Mr. YOUNG. Well, the board has veto powers over the banks and the banks have power to deal in Government securities or change the discount rate, or power to change their bill rate, or deal in foreign exchange. They have all of those powers subject to the approval of the Federal Reserve Board. The board, however, is not an operating body.

Senator FLETCHER. Can they influence the supply of gold in this country?

Mr. YOUNG. Well, it used to be in days gone by if you wanted to increase your gold stock you raised your rate and attracted the gold to the country, but within the last year gold seems to be coming to this country with reduction in the rate; apparently a reversal of the old law.

Senator FLETCHER. To what do you attribute the slump of September, 1929, and 1930?

Mr. YOUNG. The slump in the stock market?

Senator FLETCHER. Yes; the general slump, where there was a diminution of values of some $17,000,000,000.

Mr. YOUNG. I think it went so high that it fell of its own weight.

Senator WAGNER. Just a boom?

Mr. YOUNG. I think so.

Senator BROOKHART. What did the Federal Reserve have to do with sending it so high?

Mr. YOUNG. I hope, nothing.

Senator BROOKHART. Why did it not stop?

Mr. YOUNG. It could not.

Senator BROOKHART. Well, what will stop it?

Mr. YOUNG. I do not know.

Senator BROOKHART. If Senator Glass offered an amendment to the tariff bill in which he levied a tax of 5 per cent on all of those speculative sales where there was a resale within 60 days, would that stop it?

Mr. YOUNG. No, sir.

Senator BROOKHART. Would it stop most of it?

Mr. YOUNG. No, sir.

Senator BROOKHART. Would it stop any of it?

Mr. YOUNG. Oh, it might, yes, not much.

Senator BROOKHART. Some experts said it would close the stock exchange.

Mr. YOUNG. If you got the tax high enough, I suspect they might move to London or to Canada and do their speculating there.

Senator BROOKHART. Well, it would be a good thing if we could give them to London or Canada, and get rid of them, would it not?

Mr. YOUNG. No, sir.

Senator BROOKHART. So you believe in the policy of promoting the stock exchange?

Mr. YOUNG. You mean the boom that we had in 1928?

Senator BROOKHART. Yes.

Mr. YOUNG. No; I do not. I believe in the stock exchange as a place to trade.

Senator BROOKHART. Do you think that margin trades and short deals ought to be permitted?

Senator WAGNER. I am going to enter a very mild protest. I think we should reasonably confine ourselves to the subject we have under consideration.

Senator BROOKHART. I think it is material on the testimony of an expert witness as to qualifications.

Senator CAREY. We are not discussing qualifications.

Senator BROOKHART. You asked him to pass on Mr. Meyer's qualifications, so I have a right to go into any phase of it.

Senator CAREY. I do not think I asked him about Mr. Meyer's qualifications. He volunteered without my asking him. We will go on endlessly if we get into discussions of these problems. I think the business before this committee is whether or not Eugene Meyer is qualified for this position.

Senator BROOKHART. All right. Then we want to know about these problems, and if he knows of these problems he would be a better witness to testify as to his qualifications.

Senator FLETCHER. It is relevant, it seems to me, as showing what power the Federal Reserve Board has, and whether Mr. Meyer would be a safe man to be at the head of it.

Senator BROOKHART. There is one other thing. The Federal reserve law prohibits the rediscount of speculative loans at any Federal reserve bank, does it not?

Mr. YOUNG. That is correct.

Senator BROOKHART. Have the Federal reserve banks lived up to that law?

Mr. YOUNG. So far as I know, Senator. I have never seen a case where they have discounted a speculative note.

Senator BROOKHART. If it is right that the law should prohibit the rediscounting at the reserve bank, should not the law prohibit the making of a speculative loan by the member bank also?

Mr. YOUNG. I do not think so.

Senator BROOHKART. What reason is there that exists to have that power in the one case, and not in the other?

Mr. YOUNG. Your central bank is a bank that holds all the reserves of the country, and must have the most liquid paper it can possibly get hold of. Experience has taught that paper based upon production and distribution is the most liquid paper you can accumulate.

Senator BROOKHART. It is not more liquid than speculative paper, is it?

Mr. YOUNG. I think your loan based on production and distribution in the last analysis in the real emergency is the paper that you can go to the Federal reserve bank and get dollar for dollar for.

Senator BROOKHART. Well, many of the New York banks are demanding that they go to the Federal reserve and get a dollar on speculative paper, as well as the other.

Mr. YOUNG. Well, they are not going to get it. So why argue about it? I do not think the Congress of the United States will ever change the law permitting speculative paper to come into the Federal reserve bank.

Senator BROOKHART. I think not, and I think they should get it out of the whole banking system.

Senator GOLDSBOROUGH. It seems to me that we are discussing Federal reserve systems. We are not discussing the qualifications of Mr. Meyer.

Senator BROOKHART. But Mr. Meyer is going to administer the Federal reserve system.

Senator CAREY. I think it would be all right to ask Mr. Meyer how he would administer the position.

Senator BROOKHART. I will do that when I get to it. That is all at present.

Senator CAREY. We will adjourn now until 2 o'clock tomorrow afternoon.

(Thereupon, at 1.20 o'clock, p. m., the subcommittee adjourned until 2 o'c.ock p. m. Wednesday, January 28, 1931.)

# NOMINATION OF EUGENE MEYER, TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

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**WEDNESDAY, JANUARY 28, 1931**

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY,
*Washington, D. C.*

The subcommittee met, pursuant to adjournment of yesterday, at 2 o'clock, p. m., in room 212, Senate Office Building, Senator Robert D. Carey presiding.

Present: Senators Carey (chairman), Goldsborough, Brookhart, Wagner, and Fletcher.

Senator CAREY. The committee will please come to order.

Mr. Meyer, will you take the stand?

## TESTIMONY OF EUGENE MEYER, GOVERNOR OF THE FEDERAL RESERVE BOARD

(The witness was duly sworn by the chairman.)

Senator CAREY. Will you state your name, please?

Mr. MEYER. Eugene Meyer.

Senator CAREY. Mr. Meyer, I will ask you to sketch briefly for the committee your business connections up to the time you came to Washington and your activities since you have been here.

Mr. MEYER. Shortly after graduating from college I went abroad and studied banking and languages in foreign countries. I came back and worked as a clerk in my father's firm, Lazard Freres, until 1901, when I decided to go into business for myself in a small way, to begin with. My reason at that time really was that it seemed to me that the import and export business of America in the future was going to be carried on largely by American capital. So I did not see any particular reason for growing up in a business that had depended to a certain extent in the past on foreign capital.

An important part of the business of the firm was foreign exchange, and they were at that time one of the largest buyers of export bills of American cotton and wheat, and known as such. I acquired a certain familiarity with that. I was very young at the time I left, 25 years of age. Then I gradually developed in a small way into the investment banking field.

I became interested in studying the agricultural situation, beginning in 1904, in relation to the business of the country, and the more I studied it the more I became convinced that our whole prosperity was tied in with the products of the soil. I have been studying these agricultural problems with a great deal of interest for the past 25 years.

I became interested in some of the copper mining developments and various other American industries which were growing up, including the automobile industry at one time, and helped to finance them in ways that I thought were constructive, and placed their securities with clients when I thought they were advantageous for them. I met with a fair degree of success until I came to Washington in 1917.

I came to Washington originally with the advisory committee of the Council of National Defense, which later became the War Industries Board. At that period, a formative period, I tried to help in developing policies that we thought were sound and practical and which would help to win the war. I came to Washington because, although I was only 41 years of age at the time, I am color blind and did not see how I could get into the Army field forces, and it did not interest me to wear a uniform at a desk. I was offered a uniform and a majority in the Ordnance Department after I had been here a few weeks, but I thought I would stay in the civil organization so long as I could not be in the fighting forces.

I became special assistant to the Secretary of War for a short time in the beginning of 1918, and then President Wilson sent my name to the Senate as a member of the board of directors of the War Finance Corporation. I was also on the National War Savings Committee. In the autumn of 1917, after I saw how little opportunity there was for interesting activity, I asked to be relieved from active duty there and went back to the War Industries Board.

In the case of the War Finance Corporation, contrary to Mr. McFadden's idea of my being a seeker after office all the time, my name was sent to the Senate without my knowledge at the time. Mr. McAdoo had asked me three months before if I would be available. He told me, in a general way, what the plan of the corporation was to be, but without any detail. As a matter of fact, he could not have done so, because the bill had not been passed.

It was in May, 1918, that the War Finance Corporation was authorized to begin to function. I was one of four directors, Governor Harding of the Federal Reserve Board was managing director.

Shortly after the organization of the corporation Mr. McAdoo appeared at a meeting and asked me to undertake the work of handling transactions in Government securities which were authorized in the act, under the direction and by the authority of the Secretary of the Treasury. I said at the time that I would rather not do it. I told him that anybody who did the work, no matter how conscientiously and ably it was done, would meet a lot of criticism later on. He said, "Boys are being killed in the trenches and you can not refuse to do what you are asked to do," to which there was no answer that I could give.

The work in the beginning was not very great in volume. The Treasury had been conducting some operations in the bond market previously under the law authorizing the bond purchase fund, amounting to 5 per cent of the par value of the outstanding issues. That was at that time applicable only to the second liberty loan and did not apply to the fully tax-exempt first Liberty loan.

Senator CAREY. Your idea being to keep up the price of Government securities?

Mr. MEYER. To steady the market. The bond purchase fund which Congress authorized could not have had any other purpose, because the Treasury during the war was obliged to issue increasingly large amounts every time a loan period came around. The first Liberty loan was $2,000,000,000, which was considered an enormous amount at the time. The second was larger, the third was still larger, and the fourth was almost 7,000 million.

I looked around at that time and felt that the Federal Reserve Bank in New York ought to take care of the New York end of the work. They had no building as they have now; they were scattered in many rented buildings. They had an enormous amount of work in connection with the Liberty loans and the Treasury certificates. They told me they had no room and no men and no telephones which could be used. The Treasury previously had been operating the bond purchase fund through the firm of J. P. Morgan & Co., whose bond man, Mr. Anderson, was chairman of the Liberty loan committee, and the firm was handling the transactions without compensation except for the brokerages, which they paid out.

At the time the work was taken over by the War Finance Corporation, I asked them if they would continue until I could look around and see how it could be handled. They asked to be relieved of the responsibility, which involved both work and risk without any compensation. They said they were short-handed, as many of the people from their offices were off in the war. They consented to continue for a few weeks and then again asked to be relieved.

At that time, having dissolved my firm at the end of 1917, as has been stated at various hearings heretofore, which you, Senator Wagner, did not attend but which you know about from the record, I suggested to Mr. McAdoo that having space and men that could be used I would be willing to let them be used for this purpose, with the understanding that in no event would I accept any compensation for the use of the men, the space, or for any other purpose. That was carried out to the letter, as was evidenced by the audit submitted to the committee which looked into this six years ago, and that audit has never been questioned.

The work of the corporation grew as more bond issues were put out by the Treasury, and my office could not handle it because they did not have men enough to do the work. Finally I prevailed on the Federal Reserve Bank to allow the banks and brokers who handled the business to report directly to it. Only about 5 per cent of the total deliveries were handled through my office, and they were simply transactions for which my office, for no compensation, paid the money, received the bonds, registered the numbers and turned them over to the Federal Reserve Bank. With the increasing number of issues, the third Liberty loan and the fourth Liberty loan, and later on the Victory loan, it would have been out of the question for my small staff to handle the work.

That was only a part of the work of the War Finance Corporation, but every day the issues to be traded in and the prices were directed from the office of the Secretary of the Treasury through one of the assistant secretaries, and every day a report was made to the Treasury of the transactions and the prices.

Of course, all these transactions were made on the understanding that the bonds would be taken from the War Finance Corporation finally at cost, without any charge to the Treasury for the work of the corporation, because it was a corporation owned 100 per cent by the United States Government. These operations carried on by order and under the direction of the Secretary of the Treasury could not be the responsiblity of the directors of the corporation.

The board of directors of the corporation received reports from time to time; and, outside of the bonds sold to the Treasury, there were some sales of $25,000,000, I think, on one occasion to the Post Office for Postal Savings Bank and some to other departments of the Government which needed bonds and some, but not very many, in the market principally when the Government wanted to sell one issue because it was buying another issue. At the end of the activity, which was suspended in April, 1920, there were too many of one issue and not enough of another to fill the quota for the bond purchase fund, and they gave some orders for exchanges which naturally resulted in sales of some bonds in quantity, but they were replaced by other bonds at the same time, although not the same issue of bonds.

The brokerage paid to the brokers was $2 for $10,000, which was less than the cost of the service. I insisted on holding it down to that rate, because it was war, and we kept it after the war at the same commission. Although that excuse had passed, I asked them to do it, and they did. These orders were placed through various brokers and they were not given any large orders at any one time; they were kept coming in all day in small amounts so that there would be a market all day, and further stabilization.

That went on more or less automatically whether I was here or away, and the Treasury regulated the entire business and had a daily report. The activity was carried on under Secretary McAdoo, Secretary Glass, and Secretary Houston. The larger part of it was conducted under the administration of Secretary Glass, who was Secretary for about a year and the others only a part of a year while this business was going on.

Senator BROOKHART. What was the date with respect to Secretary McAdoo?

Mr. MEYER. 1918.

Senator BROOKHART. And with respect to Senator Glass?

Mr. MEYER. I think most of the year 1919 and Secretary Houston from the beginning of 1920 until April 20, 1920, if my memory serves me right.

When the War Finance Corporation's activity in that field was terminated at my request, the Treasury undertook to do the work. The time had come when I was going to resign.

I had a great responsibility and a good deal of burden and worry in connection with the work. I think the Treasury was very well pleased with the conduct of the operations, because when I resigned on June 20, I got a letter from President Wilson, based on reports from three Secretaries of the Treasury, as he stated, which was a most flattering commendation of my work.

In other directions the War Finance Corporation had to do—and I took my share of the work there along with the other directors—with the financing of industries necessary and contributory to the prosecution of the war. In that were included railroad loans and loans to other industries necessary and contributory to the prosecution of the war. Even savings banks could be financed where withdrawals were threatening them.

But those war powers expired, and the question came up after the Armistice as to whether or not anything could be done, in view of the fact that so large a part of the production of the United States had been turned into the direction of war needs, both for civil and military requirements, to help tide over the crisis created at the termination of that consuming power.

The Treasury went at that time to the Congress and asked authority to make foreign loans after the war in order to take care of the situation. I went, with the approval of Secretary Glass, with a plan for making a transition from the Government loans to private financing. I thought we could make a bridge over that difficult period of what they call post-war readjustment by supporting export finance, not directly to the foreigners or to any foreign government or to any foreign business, but by loans, under the act as written under my direction and with the approval of Secretary Glass and passed by the Congress, to American exporters who granted credits to foreign buyers of American products and to American bankers who financed such American exports.

The break-down in the foreign exchanges did not occur immediately after the Armistice; it was along in the autumn before the break-down in the pound and the franc and the mark really began to be very considerable.

The legislation that I recommended, with the approval of Secretary Glass, was adopted by Congress after hearings before the Finance Committee of the Senate and the Banking and Currency Committee of the House, and there was a billion dollar revolving credit authorized under which loans could be made for five years; which is, of course, beyond the normal time of banking credit.

In the fall the difficulties in the export of American products, manufactured and agricultural and mineral, began to develop, and people began to be interested in this opportunity to grant credit in an unusual way, and we made some loans at that time.

Senator BROOKHART. What time was that?

Mr. MEYER. That was in the fall of 1919 and the spring of 1920. The difficulty in connection with agricultural products was to get organizations to grant credits to foreign buyers of such products, but we succeeded in a moderate way when certain commodities went up rather sharply. I think that cotton went up from about 20 cents in the spring of 1919 to 40 cents in the summer.

In the spring of 1920 there was a great deal of talk about the high cost of living and inflation, and the Senate of the United States at that time passed a resolution calling upon the Federal Reserve Board for information as to what it was doing about inflated prices and the high cost of living, indicating an attitude on the part of the Congress of a desire to have some restraint.

In May, 1920, the operation of the War Finance Corporation was suspended at the request of Secretary Houston.

It did not appear to me at that time that it was wise, and I argued against it, but in the light of the agitation to discontinue all war agencies, the Secretary of the Treasury closed down the work of the Corporation in aid of exports from America to Europe or any other place, on the ground that the need was over.

Senator BROOKHART. What date was that closed down?

Mr. MEYER. That might have been the 10th or the 20th of May.

Senator BROOKHART. 1920?

Mr. MEYER. 1920. I disagreed heartily because I had a very profound conviction that we were facing a collapse in prices; that what we had to fear was the collapse, and that the period of inflation necessarily would prove to be short-lived.

I could see, however, that people might disagree with me. I should say that probably many of the people on the hill were quite convinced that the dangerous thing was the inflation. I felt that the dangerous thing was a deflation that might be impending on account of the deranging of world commerce and I resigned because of my disagreement with the policy adopted by the Treasury.

The Secretary, while he disagreed with me, was entirely friendly in his attitude, and invited me to remain in the Treasury in some other capacity but I declined because I disagreed with the policy so profoundly that I felt I could not be a part of that policy.

There was a good deal of pressure on the Secretary at the time from the hill and elsewhere, and while his view was entirely contrary to my conception, I can understand it.

Senator BROOKHART. That was Secretary Houston?

Mr. MEYER. Yes.

In the fall the fears that I had been entertaining of a collapse developed into a reality and it progressed rather rapidly. The foreign exchanges were demoralized and that interfered with business very much because fluctuating exchanges become more of a risk to the foreign buyer who is making a contract for wool or cotton or wheat than the fluctuations in the price of the article.

In the summer Senator Calder asked me to assist him in the work of a committee on housing and construction of which he had been appointed chairman. I accepted; and, after some hearings in New York and Boston, he planned a tour of the country and I went with him, at my own expense. The first stop that we made was Cleveland and there was the usual banquet of the local people and speeches. I had not been accustomed to making speeches, but I had this situation so much on my mind that I must have said some things that interested the people, because the next day, when we got to Chicago and met 750 members of the chamber of commerce in Chicago, Senator Calder and Senator Kenyon, who was also a member of the committee, said that they thought I had a message of interest and they cut their time down so that I might have more. I remember distinctly that Senator Kenyon expressed a hopeful, optimistic note and said that while the situation was very bad we were a great country and were coming out all right. I said I had a high regard for the Senator's opinion but felt that an outcome of a favorable character was dependent on whether he and other Senators would do something, and that mere expressions of optimism would produce no results. I could not feel that his optimism was justified unless Congress would come to the aid of the situation in a helpful and effective way.

The next day we were in Des Moines and we had very interesting hearings there. Mr. Wallace, who became Secretary of Agriculture later, was one of the leading witnesses. There was a luncheon and Senator Kenyon on that occasion said they had often heard from him but he thought I had a message for the people of his State and he would give me all of his time. I told them what I thought about it and apparently the message was well received.

We went from there to Omaha and then to Denver and back to Kansas City and St. Louis, Senator Calder and I. Senator Kenyon had remained in Des Moines.

Considerable sentiment was aroused for the revival of the War Finance Corporation under its broad powers to assist in the export of American products.

Senator Brookhart. Was that the message that you were carrying?

Mr. Meyer. The revival of the War Finance Corporation to do what could be done under those powers was the principal thing that I was talking about, but I was not saying that was the only thing to do. That was in November. In October I had come down here. A committee of gentlemen from Memphis who were interested in the cotton situation telegraphed me asking if they could come to see me at Mount Kisco and discuss the situation. They stopped at Washington. There was an annual convention here of the American Bankers' Association. They wired me to come down here and asked to have me put on the program. The bankers would not do it because the Secretary of the Treasury disagreed with me and they thought it might be offensive to him, but they hired the top floor of the Raleigh Hotel and there was a meeting of 200 bankers interested in the southern situation and agricultural situation generally. I spoke at that meeting, respectfully differing with the Secretary of the Treasury on the question of policy.

I subsequently came down and made another speech before a farm organization. Then in December I came to Washington when Congress convened with no particular thought of testifying, but there was a joint committee of both houses on the agricultural situation, and I walked into the room to listen. Senator Kenyon saw me there and he said, "Mr. Meyer is here and has some ideas," and I began to testify. Of course, I began very soon to define my views on the policies of the administration, and he said, "Had we not better call the Secretary of the Treasury and the Governor of the Federal Reserve Board?" I said that I thought so. They called them and I returned on the following Monday and answered their arguments. I then testified two or three days later before the Committee on Banking and Currency of the House. Both Houses passed a resolution to revive the War Finance Corporation.

Mr. McFadden had voted against it in Committee. The majority report from the Banking and Currency Committee of the House was made by Mr. Strong, I think. Anyway, it was carried by only one in the Committee. The Senate of the United States passed it, as did also the House.

It was vetoed by the President because it did not conform to the views of the Secretary of the Treasury, and both Houses passed the resolution over the veto in January, 1921. In the Senate I think the vote was 50 to 6. In the House it was 250 to 56 or something like that.

Senator Smith of Georgia came to me and said, "If you will accept the position of managing director of the corporation to restore this thing and get it working, I will bring a petition signed by every Senator both Democratic and Republican, to the President." I said I could not do that, because I could not undertake to do the work under the direction of the Secretary who disagreed with me.

At that time the Wilson administration was drawing to a close and in March, 1921, President Harding appointed me managing director. I did not send word to him that I wanted it; I did not ask him for it, and I did not send anybody to him; but, as one of the newspaper men said at the time here, Congress had revived the War Finance Corporation, nobody saw that much could be done with it, Meyer had taken the responsibility for recommending to Congress the revival, and the President passed the buck to him to make it work.

The situation had changed a good deal, but we managed, after some meetings, to do some things. It took a little time to rebuild the organization, which had been demobilized, and along in the first week of July we made some good sized loans to the cotton cooperatives, beginning with a large loan to the staple cotton association in Mississippi, followed by loans to the associations in Oklahoma, Texas, and other States.

Senator FLETCHER. You did not have any more to do with buying and selling bonds as securities?

Mr. MEYER. I had nothing to do with it at all; that activity had terminated in April, 1920.

Senator FLETCHER. The purpose of creating a War Finance Corporation, then, was because under the law the Treasury could buy bonds but could not sell them?

Mr. MEYER. No; I do not think that had much to do with it.

Senator FLETCHER. Is not that the fact?

Mr. MEYER. I can not tell you what the purpose was.

Senator FLETCHER. Is it not a fact that the law did then authorize the Secretary of the Treasury to buy bonds but did not authorize him to sell bonds, and the War Finance Corporation was created and it did buy and sell bonds through the War Finance Corporation?

Mr. MEYER. It did not sell many bonds, except to the Government, Senator—only a very small amount compared to the whole. I tell you frankly I am not very familiar with the events leading up to the creation of the corporation because I did not follow them at the time. I did not know that I was to be appointed. I took no interest in it. I did not know about it, as a matter of fact, and I never took the trouble to look it up.

Senator FLETCHER. It is a question of what the law was. The law did not authorize the Treasury to sell bonds, but it did authorize the Treasury to buy bonds, and the Treasury, through the War Finance Corporation might buy and sell.

Mr. MEYER. But the selling, except to the Government, was very insignificant as compared with the whole.

Senator FLETCHER. After it was reorganized you did not do anything respecting bonds?

Mr. MEYER. No; nothing in the same way. There was not any occasion for it.

The situation had changed a good deal from the point of view of financing exports, on account of the fact that the English pound had dropped, say, from $4.70 in July, 1919, to $3.18, and it went up again and down again. The foreigners did not want to borrow American money because they did not know what the dollar was going to cost them in pounds or francs or marks.

Senator BROOKHART. When did that big drop occur?

Mr. MEYER. In the fall of 1919 and the spring of 1920. That was when all the foreign countries got on a paper basis and later the German mark went down to nothing. But it interfered a great deal with American exports and the question of the time of the export, particularly, became a vital factor. For instance, ordinarily before the war about 75 per cent of all the cotton exports of the whole year would take place shortly after the crop was harvested, but the foreigners began to buy one-twelfth monthly, or something like that, because they could not stock up on account of the fluctuating currency. That has always been a factor in countries with fluctuating currency.

We made some export loans, and some large loans to cooperatives which they agreed to repay out of the proceeds of export sales—we construed the law liberally in a desire to be helpful and feeling that it was in the public interest—and the cotton market and confidence in the commodity was restored to a remarkable extent all over the world.

Cotton, which was about 10 cents on July 1 1921, rose, in spite of the fact that the new crop was just coming on the market, several cents a pound and held that rise, which meant, if you figure at least 6 or 7 cents a pound difference, two hundred and fifty to three hundred million dollars on the new crop, besides the difference on the large amount of the carry over. I think Congress was impressed by the ability of the corporation to get that result.

Senator BROOKHART. I did not get those figures that you mentioned. Will you state them again?

Mr. MEYER. From about 10 cents to about 17 cents during the early autumn, and that rise was held very well.

Senator BROOKHART. What other items did you mention?

Mr. MEYER. I did not mention any others.

Senator BROOKHART. Did you mention corn?

Mr. MEYER. No; corn is not an export commodity anyway. The decline in prices continued throughout the country—cattle and wheat, not so much wheat, but corn, sheep, and wool. The banks were in difficulties, and, obviously, some wider activity had to be developed. In analyzing the situation and the effects of the fluctuating currencies, it became evident that the time element in the marketing of our crops had become a vital factor, the time of financing and the time of marketing, because foreign buyers were not in a position to take our commodities in the manner they had been accustomed to do under ordinary conditions. Of course, during war times they took them because exports then were being financed largely with Government money; but when peace came the whole time element in the situation was changed. Seeing that, we went to Congress with a proposed amendment to the War Finance Corporation act, assuming that the financing would have to be done at home and not abroad; that we could not stimulate sales by giving credit to foreign buyers because they were afraid of borrowing dollars on account of the fluctuating currencies abroad, which made it uncertain what the dollar would cost them when they came to repay.

The amendment, known as the agricultural credits act of 1921, was adopted by the Congress and signed on August 24. We had, of course, no nation-wide banking organization and we had to get an organization together hurriedly.

Committees were appointed at all of the places where it seemed likely, according to reports, that some help in addition to the regular resources of the territory might be needed. We appointed committees in 33 places, some covering more than one State, and some just one State.

We tried to get the best people for the purpose locally, and I think on the whole the committees turned out very well in many cases.

I started out West to get acquainted with the situation at first hand. My first stop was Chicago. They did not think then that Illinois would need a great deal, but we loaned considerable amounts there later. I then went to the Twin Cities. Our committee in Minneapolis covered the States of North and South Dakota and Minnesota. There was a good deal of skepticism about the feasibility of this operation and whether or not the Government would sit down here and make a motion but not perform. However, after our talk they took a different interest in it and got to work.

From Minneapolis I went to Helena, where we had an agency for Montana; then to Spokane, Portland, San Francisco, Los Angeles, and Salt Lake, and then came back through Cheyenne, Denver, and Des Moines to Chicago.

The thing that hit us hardest on that trip—we believed that the country banks would come to us and get money to lend to their farmer customers, or to carry longer those whose notes they already held, and we could see it working—was the very major problem in connection with the animal industry. I do not know whether you were at that meeting in Cheyenne when I was there or not, Mr. Chairman.

Senator Carey. I know all about it.

Mr. Meyer. We ran into the tremendous problem of the cattle industry and the sheep industry where the banks were not big enough to carry the loans. It was not a problem that they wanted to solve by borrowing money from the War Finance Corporation; they wanted to be relieved of the loans.

As a matter of fact, many country banks in those days had made loans that were above the legal limit on indorsements of directors. How to take care of that livestock situation became the major problem.

It worried me a lot all through the trip from Montana on down to the coast and until I got to Salt Lake. There, of course, the problem was acute, because the cattle and sheep situation in Utah was very bad.

We tried to cheer everybody up as much as we could and to convince them that we meant business and had money. At a dinner in the evening with some of the leading bankers and others, when we were sitting around the table talking about the livestock situation, I said, "If anybody here will organize a loan company with $250,000 capital, we will lend you two and a half million dollars on livestock, if the management of the company is good." Much to my surprise, because the community was certainly suffering as much as any, they said, "We will do it." I left Salt Lake City that night, reached Cheyenne the next day, and spent two and a half hours there. I need not tell you, because I am sure you gentlemen know, that livestock is the principal thing there is in Wyoming outside of the oil fields. There were 75 bankers in Cheyenne from all over

Wyoming, and they were in real distress. For a couple of hours there was a lot of discussion. Our late friend, Senator Warren, was there, very understanding and very helpful. I suggested that they organize a loan company, and they did not leave that night until they had arranged to form one with $200,000 capital. The capital was raised gradually to a million, and I think we loaned that corporation thirteen or fourteen million dollars in the aggregate. The loans made through it were carried along for 1, 2, 3, or 4 years, and when the War Finance Corporation stopped lending, they went to the intermediate credit bank.

Senator CAREY. They paid back in full?

Mr. MEYER. They did; yes.

In Texas we had a terrific problem because the State is so enormous and the cattle industry is so huge. I could not get down there—I could not get everywhere—but I had a general acquaintance with the problem. I remember that I came back here and we had these loan companies just starting, and I telegraphed to our Texas agency about organizing a million-dollar loan company so that the corporation could make its facilities available on a large scale. They practically said I was crazy; that they might get $25,000 together. They got the Federal Reserve Bank of Dallas to tell me that it could not be done. They finally said, "If you can do it, come down here and do it; we can not." But I sent them a telegram and said, "Use this telegram as a call for a meeting." I said that the War Finance Corporation was ready to to go to the rescue of the cattle industry in Texas if they would provide a loan company large enough to meet the situation effectively.

They held a meeting and raised something like $950,000 in about 25 minutes. We loaned that company, as I remember it, about $14,000,000 in the aggregate. When these things began to get out a certain amount of confidence was restored.

In Iowa we met the situation to the best of our ability. Secretary Wallace recommended to me the chairman of the committee we appointed there. We felt that Iowa was a very important area in the Corn Belt. We felt great confidence in the natural resources of the State, and we were ready to put large sums of money into it, but the committee was a little doubtful in the beginning as to whether there would be much demand. They had been awfully hard hit in Iowa, not only by declining prices, but a lot of stock had been sold by blue sky promoters in that State, as well as in other States.

Senator BROOKHART. Were there not some investment companies?

Mr. MEYER. Well, I do not know. I just heard it when I was out there with Senator Calder. There was a packing house, Senator, that lost a lot of money.

Anyway, we had the committee arrange meetings in nearly every county in Iowa to teach the country bankers how to make applications to the War Finance Corporation. We wanted them to use some of our money to pay off their more pressing creditors and to take some new money and lend it to farmers to buy livestock, because they could not sell their corn. It had to be fed, and the people to feed it were the people who were accustomed to feeding it.

We put about $24,500,000 into Iowa. On my return trip from the West in September, 1921, I met with a committee of the American

Farm Bureau Federation in Chicago, and some of them said they did not believe the farmers should be encouraged to buy and feed cattle; that they had recommended it the previous year and the year before that and thought it was dangerous. I said "We will take the responsibility," and we did, and those who bought cattle in the autumn of 1921 to feed made good money. Prices were low and things came back later.

We went on, and, finally, we had approved, I think, loans aggregating about $187,000,000 through country banks and pretty close to a hundred million through livestock loan companies, and considerable amounts through the cooperatives, including large amounts on Burley and other tobaccos, cotton, and various other agricultural products.

By that time Congress had created the Joint Commission of Agricultural Inquiry which considered what steps should be taken in a permanent way to do what the War Finance Corporation had done in a temporary way.

The commission recommended the passage of the Lenroot-Anderson bill, which provided for the establishment of the intermediate credit banks and that bill became law on March 4, 1923, along with some modifications in the Federal reserve act suggested by the War Finance Corporation. These modifications were in the direction of liberalizing the law so as to permit the Federal reserve banks to discount, under certain conditions, agricultural paper having a maturity of nine months and remove doubt as to the eligibility of cooperative marketing paper.

I took the responsibility—and it did not meet with the approval of some of the conservative bankers—of saying that nine months agricultural paper ought to be eligible.

While not so much long-time paper is ever presented, we found that the eligibility of paper was a very important factor. It seemed to us that since the Federal reserve system had been organized there had been too much difference between eligible paper and ineligible paper merely on the basis of eligibility, and that good paper that was not eligible was not as much appreciated as it ought to be.

There never was much trouble, except in a period of tight money, in financing feeders in the Corn Belt, because that is a quick liquidating, eligible loan; but the breeding end of the business was the thing which hit me hardest and which interested me most, and in connection with which it was said the intermediate credit banks would do the most to help.

I am afraid that when they were organized they did not look with favor on the breeding end of the livestock industry. Of course, I have come to believe that, in spite of the talk about the wheat crop, the animal industry is the big agricultural industry of the United States. The beef-cattle crop far exceeds in value any other crop in the country, I think, except when cotton is selling at very high prices.

I made some inquiries a few years ago in Chicago and was told that there were about sixteen million cattle of a thousand pounds weight going to market every year, besides some eight or nine million calves. The beef cattle industry stands preeminent as the largest agricultural industry of the United States, if you include the breeding and the fattening and feeding processes.

Then take hogs, of which about 40,000,000 a year are slaughtered, and add them to the sheep and the dairy products and you have an animal industry crop that far outweighs all other considerations.

Of the individual crops, of course, cotton is the most important. I have always been very greatly interested in that crop because it is one crop in which America dominates the world, or has in the past. Sixty per cent of the world's cotton even to-day is grown in the United States.

One of the first things that we did in the Federal reserve this autumn was to have a meeting of the governors of the banks of the sourthern States in connection with the cotton situation, as well as a meeting of all the governors with respect to all agricultural products. An announcement was put out at that time in relation to orderly marketing and financing with the view of establishing confidence and a more useful functioning.

Cotton is extremely important to 13 States and 30,000,000 people. It affects their buying power vitally, and is an important element in the prosperity of the entire country. For that reason and not on the ground of sentiment I think it deserves the greatest consideration from all of us. Sometimes they say I have a cotton complex, but I have not; I just think that I appreciate the importance of cotton to the territory in which it is grown and to the entire country and to the position of the United States in relation to its world trade.

I figured out back in 1920, Senator, when I was in this debate with the Secretary of the Treasury, that the entire export balance of trade in the United States for 50 years previous to 1920 was less by $3,000,000,000 than the value of the export of cotton. So you can see the importance of cotton to the people of this country.

Now, we did the best we could for the agricultural interests in that War Finance Corporation activity. We think we handled the business in a very careful and business like way. We did not throw money around. We went into many very daring and difficult situations and took many chances. We had small losses compared to the whole. The country paid out extremely well. It made me feel a great confidence in the industry and integrity and perseverance of the agricultural producers of the country the way they dug in and stuck to it.

The thing that was particularly bad, of course, was that in that very acute deflation land values had gone down. Of course, they had been inflated during the war. The banks had increased in number and were considerably inflated. I think the banks increased from 1910 to 1920 from 23,000 to 30,000 and now they are back again to about the same number as in 1910.

As I look back, I want to say, not for myself but on behalf of the organization we had here, that I have never seen a group of men work more industriously and self-sacrificingly than did the organization that we got together. Whether it was Thanksgiving or Christmas or Washington's Birthday made no difference. We pushed through those loans that had to go out to the country people who could not wait for holidays or Sundays; and I never made a call on the organization that they did not respond to, whether it meant working nights or Sundays or holidays.

So when you criticise the War Finance Corporation, maybe we did not do everything; maybe we did not do as well as we should, but we did the best we could. Senator Carey, you know something of the results in Wyoming. We certainly showed courage and confidence in the livestock industry and the people of your State, and that confidence and courage were rewarded by a splendid performance of the local responsibility.

With the coming of the Intermediate Credit Act, the desire—

Senator CAREY. Just a minute, Mr. Meyer. I was wondering whether we had better interrupt you here to question you regarding the War Finance.

Senator BROOKHART. I think it would be better to have the whole story now.

Mr. MEYER. Of course, what we in the War Finance Corporation were aiming at was to save the men that had been engulfed in a calamity to the extent that we could. Throwing money away to pay up other people's losses did not seem to be a part of the intent of Congress, because the law stated the loans should be made on adequate security. Therefore, it was not our business to take over losses, and, as a matter of fact, I did not see how we would be promoting the public interest by doing so.

Prices in general responded fairly quickly. Wool came back, as you know, Senator, because the statistical position lent itself to recovery. The beef-cattle industry had been expanded by 5,000,000 head, because the supply of Argentine beef had been cut off during the war and soldiers were given meat every day in the week. When the war was over they stopped eating meat every day and went back to once or twice a week.

The Argentine beef came in competition with our expanded production and we were left with 5,000,000 head of cows producing steers that the world could not consume any more, and they had to come down in price. It would have been a good thing if we could have slaughtered about 10 per cent of the cows, but nobody had the power to do it, and the surplus was reduced through a painful process lasting over a period of years.

Senator CAREY. It would probably have been a good thing had some of those cows been slaughtered.

Mr. MEYER. Yes; I think so. Bankers later on were telling the people out in your country to buy sheep and get out of the cow business just at the time that cows were selling at very low prices, and they ought to have been telling them the opposite, because now there are too many sheep. But you can not tell people always what to do. They do not believe you, and they are probably right. They have to follow their own judgment.

Gradually the banks got liquidation and better prices instead of demoralized prices. Corn went up, cattle went up a little, and sheep considerably. It all depended on the condition of the particular industry. The War Finance stopped making new loans at the time set by Congress and did not force collections. As the money came in, it was deposited in the Treasury and the activity was put into liquidation, as ordered by Congress.

The intermediate credit banks took over some of the work, a good deal of it, but not as much of the livestock business as I should have liked to have seen them do. I did not think they had men who really believed in breeding loans at that time as much as they should have. But they came into action gradually and performed some useful functions.

The land situation became a troublesome one, because many banks had unusual amounts of mortgages on land at that time. The land bank system took over from the banks and refinanced vast quantities of real estate mortgages. far in excess of the normal amount which would ordinarily be required. By doing so they performed a useful function, although perhaps the business was done too rapidly and not systematically enough.

Senator FLETCHER. You afterwards had supervision of the intermediate credit banks. Did you get them to function?

Mr. MEYER. I did not have supervision over the intermediate credit banks; I had nothing to do with them until four years after they began to function.

Senator FLETCHER. I said, you afterwards had supervision over the intermediate credit banks?

Mr. MEYER. Yes.

Senator FLETCHER. That is true, is it not?

Mr. MEYER. Yes.

Senator FLETCHER. I was asking you whether you got them to function to your satisfaction at that time?

Mr. MEYER. Well, there were so many other things, Senator, that we had to do. We had to rebuild the man power of some of the land banks where the officers were administering the intermediate credit banks. One of the troubles was that the people in some of the land banks running the intermediate credit banks had to be replaced. On the whole the intermediate credit banks, I think, have gone on and expanded their business quite a little.

But there was not the same need from the cattle-loan industry in 1927 and 1928, when I was there. Prices were very good and banks were glad to take livestock loans. The need was greatest in 1923, 1924, and 1925, and not in 1927 or 1928, when I was in the farm-loan system. The time is important to remember. However, if I had been there no cattle loan with good security would have gone begging if I could have helped it. That was the important element in the intermediate credit situation, except the loans to cooperatives, and those, I think, went on very well from the beginning, and at all times. I had not heard of many complaints—a few, but not many—from the cooperatives about the intermediate credit banks.

The commodity loan business is fairly simple. We gave them all our forms from the War Finance Corporation, and sent our attorneys and men over there to help them organize the loans to the cooperatives. So they should not have had any difficulty with them. Loans on wool and cotton and similar commodities are not complicated.

I have not been thinking about these things for a long time, but it was very interesting and thrilling at the time, and we saw results. The War Finance Corporation needed a good deal of care and attention to do justice to the borrowers and protect the loans. Advances were made to people in some cases for expense requirements, even after the time had expired for new loans. I think that the feeling of the country, so far as we could get it from the reflections back from our agencies and the letters we got from grateful borrowers in great quantity, made us feel that we had accomplished something worth while.

I do not like to talk about myself so much, Senator. I do not know whether all of this is interesting.

Senator CAREY. If you want to rest a few minutes you may do so.

Mr. MEYER. The next interesting situation that came up was an extraordinary crop of cotton in 1926. About 8,000,000 bales of cotton had been produced in 1921. Prices rose in 1921 and 1922 and 1923, and cotton got up at one time to over 35 cents in two or three years from 1921. This stimulated production; stimulated the use of fertilizer, stimulated acreage, and stimulated the yields per acre.

All of a sudden, in a most unprecedented way in the history of cotton, in the fall of 1926, after it had been estimated in the summer that there would be a 14,000,000-bale crop, the Department of Agriculture found it necessary to increase its estimates, owing to a most perfect growing season, until they got up to 19,000,000 bales, which was 3,000,000 larger than any crop in the history of the country.

The cotton market started down under the pressure of these repeated increases, and by the middle of October, 1926, cotton was 12 cents.

I was called to Washington. I was away at the time for a few days in the country, at my farm. I was asked by the President to head a cotton committee. It looked to me that I was being called in to go over the top in the zero hour in a hopeless cause.

Senator CAREY. This was before the intermediate credit banks were organized?

Mr. MEYER. Before I went in the farm loan system. The intermediate credit banks existed. The cooperatives atthat time had control of about a million and a half bales of cotton. They never got any more than they had in the first few years. Those cotton cooperatives did not really function until the War Finance Corporation offered them the money. They had some papers drawn, but they had not become important.

I had great hopes of the rapid growth of the cooperative movement, because we had been able to build so much in the two years, 1921 and 1922. The Burley tobacco association had, oh, 90 per cent of the production. In most cotton States they had cooperatives. Tobacco and cotton were the principal ones; also some other products, but not so important, were organized in these years.

I found in 1926 that the amount of cotton under cooperative control was no bigger than it had been when we were doing business with them in 1921 and 1922. In percentage it was even less.

I spent a couple of weeks studying the situation. I was the traveling man for this committee which consisted of Secretary Jardine, Secretary Mellon, Secretary Hoover and myself. We listened to all the plans and suggestions, and finally I made up my mind that I would have to go around through the South and get the people to organize some financing corporations through which the intermediate credit banks could lend money on cotton for orderly marketing. I had in mind that these corporations would be organized locally and that the cooperatives would handle the cotton, storing, classing, and selling it. But the financing would come through a corporation, because the loans to the cooperatives under the law could not exceed 75 per cent of the market value, while through the finance corporations the intermediate credit banks could lend a safe value, and would not need to call for more margin if the price went down.

At Raleigh, N. C., they agreed to put up a million dollars. The State bankers' executive committee came in, and the Governor participated, as did some of the leading citizens.

We went to Columbia, to Atlanta—each place a day, traveling at night, meeting in the day—at Birmingham on Monday; at New Orleans on Tuesday, and met with good results everywhere.

In Dallas we had some difficulty, because the plan called for $5,000,000 for Texas, and there were some arguments by the cooperatives. They did not seem to understand the program, and they also did not want any aid offered to anybody unless they joined the cooperatives.

The emergency was so great that, while I had backed the cooperatives to the limit with money and always advocated cooperative marketing, we could not, under the conditions, depend on a membership in the cooperatives that it would take months to recruit if the situation was to be met. We had to have something that, actually or potentially, would produce quick results, and potentially was just as good as actually in some ways.

We also stopped at Oklahoma City and Memphis, and we had, I think, by that time, agreements from responsible people that they would, if necessary, organize corporations with aggregate capital of $16,000,000 and borrowing capacity of $160,000,000. The thing was widely exploited in the South and all over the world. The papers in Europe called it a solution of the problem, if not actually, potentially. And the ability to borrow $160,000,000 on the large amount of surplus cotton, at the time is stated to have saved the South several cents a pound. It had to be done quickly or it would have been too late. The price of cotton stayed around 12 cents for a few weeks, and then went on up. By one year from the time I made my trip cotton sold again at 25 cents.

Senator Fletcher. Where did that $160,000,000 come from?

Mr. Meyer. Oh, they did not have to put it up, but it was offered by the businessmen and the bankers of the various States. I do not know who they were. In each State it was different. In North Carolina I know some of the prominent citizens offered most of the capital and bankers took a little. I never saw the subscriptions and did not have anything to do with that. They were local activities.

Senator Fletcher. The Government did not furnish any of that?

Mr. Meyer. Not the capital, no. The intermediate credit banks agreed to lend to corporations with local capital and local responsibility. That is what I believe in whenever you can get it working. It is the most effective way of helping people.

Senator Carey. What percentage did you loan?

Mr. Meyer. Oh, they did not lend very much because the market took it away. When they saw that they were not going to be forced to sell the cotton the trouble was over. There was a little cotton money loaned here and there by these corporations, but very little.

In fact, the plan has been attacked as a failure by some of the people down South because the corporations did not lend much. But what they did was to put a stop to the decline in cotton. About that time business became better all over the world. We should bear in mind particularly, because it is the great difference between the present situation and that situation, that cotton in 1926 was the only important distressed commodity. The world commodity price level was high—I mean relatively. Cotton had a sudden break, and the problem was how to restore, through good credit agencies, the price of cotton to its place in the general level. Of course, now we have a generally low level, unfortunately, not only in this country but in every country. The problems now are different and more difficult.

Senator FLETCHER. What is the price of cotton now, do you know?

Mr. MEYER. Well, the contract price is about 10½ cents.

Senator FLETCHER. It went down after this 25-cent point was reached, didn't it?

Mr. MEYER. I said in 1927, in October, it was 25 cents. Then it got down around 18 cents for some time in 1928.

Senator FLETCHER. Do those organizations still function?

Mr. MEYER. No; they do not exist.

Senator BROOKHART. The result of all this magnificent picture you have given was that about a million and a half farmers have lost their homes or property or life savings if tenants and about 6,000 banks have failed?

Mr. MEYER. Well, I do not think anybody lost their homes or 6,000 banks were in difficulties on account of this particular thing, Senator.

Senator BROOKHART. There were other causes, but this entered into it?

Mr. MEYER. There were not 6,000 banks in the South that failed, anyway.

Senator BROOKHART. We will see about this inadequate and scrappy system of financing agriculture.

Mr. MEYER. You are a little hard to please, Senator.

Senator BROOKHART. Well, when I see that the land in my State, the best land, you have said, in the world——

Mr. MEYER. I think so.

Senator BROOKHART. Is not able to pay expenses and taxes and see that it has gone from about 15 per cent of tenantry to about 55 or 60, why, I know that there is something wrong, and I think I know what it is.

Mr. MEYER. I know there is something wrong. There is a whole lot wrong. And I am not able to say that I know exactly what it is, but I am glad you do.

The farm loan situation, Senator, was the next activity I entered on, and that was brought about by a very complicated situation. The reasons for the reorganization which we were asked to undertake have been set forth in the reports of the Farm Loan Board and the Secretary of the Treasury. It was a new system which grew up very rapidly under very abnormal conditions. I felt, as I said before at hearings three years ago, that the fundamentals of the sytem have been proven extraordinarily good—the idea of lending on land, conservatively appraised, 50 per cent of the land value and not over 20 per cent of the permanent improvements.

A mistake, I think, was made——

(At 3.17 p. m. a recess was taken until 3.45 p. m. for the purpose of Members voting on the floor of the Senate.)

Senator CAREY. We will adjourn, gentlemen, until 10 o'clock Friday morning.

(Whereupon, at 3.47 o'clock p. m., the hearing was adjourned until 10 o'clock a. m., Friday, January 30, 1931.)

# NOMINATION OF EUGENE MEYER TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

**SATURDAY, JANUARY 31, 1931**

United States Senate,
Subcommittee of the Committee on Banking and Currency,
*Washington, D. C.*

The subcommittee met, pursuant to adjournment of Wednesday, January 28, 1931, at 10 o'clock a. m., in room 212, Senate Office Building, Senator Robert D. Carey presiding.

Present: Senators Carey (Chairman of the Subcommittee), Goldsborough, Brookhart, Wagner, Fletcher.

Senator Carey. Mr. Meyer, you may proceed.

## TESTIMONY OF EUGENE MEYER, GOVERNOR OF THE FEDERAL RESERVE BOARD—Resumed

Mr. Meyer. Mr. Chairman, the operations of the War Finance Corporation I described to you in a general way. We discussed the work that was done in the cotton situation in 1926 which was considered successful. We did all we could and more than anybody thought could be done in that particular situation, I think.

The broader aspects of the War Finance Corporation's operations are contained in its reports, but not all of them, by any means. Many very interesting things happened but I can not go into every detail.

I remember, for instance, that out in Idaho in 1921 they suffered particularly on account of freight rates. You are familiar with that. Alfalfa in Idaho usually had been sold in Kansas City and Omaha, but high freight rates prevented that. A very good man came down here from Idaho and explained that alfalfa could not move, and he wanted to bring in cows and ship out cream, butter, and cheese. His name was Sheppard. He put up a little money for a loan company, I think, $35,000, and we loaned it enough money to bring about 5,000 or 6,000 cows into the area and alfalfa was shipped out in the form of the finished products.

We had a very interesting situation in Sioux Falls, S. Dak., later in 1924. That was in January, I think. A relatively large bank in that country closed with five million or six million dollars deposit. It had been acting as a sort of reserve bank of deposit for a large number of small banks. Senator Norbeck and Senator Sterling and Royal Johnson came down to see us about the matter after a few days. We went to Sioux Falls. We got there about 10 or 11 o'clock in the morning, the mayor and some of the leading citizens having met us down the road.

Conditions seemed to be very bad. I think four banks had failed. I had no particular plan when I went there. I did not know the situation, but I had some help with me, an assistant and our counsel.

We got there in the morning, and I had the feeling that the people of Sioux Falls felt very far away. They had a regular bank panic there. People got a little money out and stuck it away in a vault or elsewhere. It was the kind of thing that happened in this country in the nineties a good deal, but I had never seen it after that.

I had the feeling that the thing to do was to show confidence and by so doing we would restore their confidence.

I sent for some of the leading citizens, the names of a few of whom I had before I went there from people who knew the town. I had full power from the board here to act—the only time they ever gave me authority to act for the board with the agreement and understanding that whatever I did would be O. K.'d. We opened an agency at 8 o'clock the following morning; not after a long time, but the next morning. We had offices and a competent staff and all the papers necessary for the small banks that had their money locked up in the Sioux Falls Savings & Trust.

I got some help from Minneapolis, from our agency there, and we started in doing business the next morning, and they paid out something like one and a half million dollars to restore reserves of these banks that had been locked up.

I merely mention that because the history of the corporation was filled with little incidents of that kind in which we thought we were very helpful, and at the time the people thought we were.

I went up to Minneapolis. Again we did an exceptional thing. I told the agency in Minneapolis, of which the office at Sioux Falls was a subagency, that they could approve loans and pay out the money without reference to Washington. In many cases the money was applied for on one day and paid out to these banks the next day with the approval of the local committee in Minneapolis. The Federal reserve bank handled the money and I gave them instructions to pay the money on order of the local committee instead of on orders from Washington.

We had to do some exceptional things under exceptional circumstances, and I think we realized that and tried to do it.

The farm loan system part of my work lasted two years, beginning in May, 1927, I think the 10th of May. I took office with two of my colleagues. At the very urgent request of the President and Secretary of the Treasury, who felt that a reorganization of the board and the work of the bureau was vital if the system was to be preserved, we undertook the work. It was a very difficult piece of work. One large joint-stock land bank had already gone into the hands of a receiver on the 4th of May.

Senator CAREY. Was that the Kansas City bank?

Mr. MEYER. Yes. It went into the hands of a receiver with over $40,000,000 in bonds outstanding.

An impression has been given out that I was responsible for the receivership. The Kansas City Joint Stock Land Bank was in the hands of a receiver before I entered on my duties. As a matter of fact, I went abroad a month before I went into the land bank system and did not know that the Kansas City bank was on the verge of a receivership. I had a sister abroad who was ill and I wanted to have a visit with her. I had not seen her for a year or two, and I went over for two weeks and got back about the 5th of May.

The bank was in the hands of a receiver; and while I had undertaken to do this work, it did not make it easier to have a receivership like that just when I started.

Reference has been made to other receiverships. There were two more which followed. One of them was the Ohio Joint Stock Land Bank, which was practically in liquidation. It was a relatively small bank. It had never issued over a million and a half bonds. It had no office of its own. Its business had been put in the hands of the president of another joint stock land bank. The reason it went into the hands of a receiver was because it was unable to pay interest on its bonds.

There was a statement issued by the board on September 1, 1927, which read as follows:

Upon receipt of notice of the failure of the Ohio Joint Stock Land Bank, with headquarters at Charleston, W. Va., to pay interest due September 1, on part of its outstanding bond issues, the Farm Loan Board, pursuant to authority contained in section 29 of the Federal farm loan act, to-day appointed Mr. J. S. Horton as receiver of the bank, and instructed him to take immediate charge of its affairs for the purpose of conserving its assets and protecting the interests of all parties concerned.

The Ohio Joint Stock Land Bank is one of the smaller institutions. The capital stock is $250,000 and the outstanding bonds aggregate $1,369,300. Mortgage loans total $1,399,000. The bank has issued no bonds since January, 1924—

Three and a half years earlier, it was a moribund bank—

and has been practically in liquidation during the past two or three years. Other institutions having considered the possibility of taking over the bank without result, receivership was the only course open.

The board had tried to get some other bank to take it over in order to avoid a receivership. Two or three of the strong banks of the system considered the matter. I think two at least, but after examining its condition, they found it a hopeless situation and refused.

Previously to that there was another bank that had failed—I have not got them in the order of time. It went into the hands of a receiver on July 1, 1927, a few weeks after my colleagues and I took office.

Senator Brookhart. What was the date of this Ohio bank receivership?

Mr. Meyer. September 1, 1927.

This is the press announcement with regard to the other bank I mentioned:

Upon receipt of notice of the failure of the Bankers Joint Stock Land Bank of Milwaukee, Wis., to pay interest due July 1 on part of its outstanding bond issues, the Federal Farm Loan Board, pursuant to authority contained in section 29 of the Federal farm loan act, to-day appointed Howard Greene, of Milwaukee, receiver of the bank and has instructed him to take immediate charge of its affairs for the purpose of conserving its assets and protecting the interests of all parties concerned.

The appointment of a receiver is the culmination of a situation that has been developing in the bank's affairs over a considerable period of time. During the early part of the present year, the directors of the bank appointed an advisory committee, consisting of leading business men and bankers, to advise with the bank's management in connection with its operations. The committee has been studying the affairs of the bank for several months in an effort to work out a plan of reorganization. Its efforts in this connection were not successful, and the action of the directors of the bank in ordering the nonpayment of the interest due to-day was in accord with the recommendation of this committee.

Under date of June 29, 1927, the general manager of the bank addressed the following circular letter to its stockholders:

And it recites in there his letter and the reasons which made necessary the appointment of a receiver.

Those things were regrettable. They naturally did not help in the work we had to do, which was to try to save and reconstruct the system; but they were inevitable, and they have not been followed by any receiverships since that time. Both of those banks that went into the hands of receivers after I took office were practically bankrupt before that.

Senator CAREY. There have only been three of these joint-stock land banks that have failed, have there not?

Mr. MEYER. That is all.

I do not feel, Mr. Chairman, that I want to go, unless you want me to, into all of the difficulties and weaknesses that we opened up in the situation. I was examined here before a committee when I was confirmed for the position of Farm Loan Commissioner. We undertook that responsibility May 10, 1927, and the nominations were sent to the Senate in December and extensive hearings were held before the committee at that time.

At that time also there was an attempt to make a hearing on my confirmation and that of my colleagues a matter of considerable unpleasantness and discredit to the land bank system that I was trying to protect. I had to answer the questions and charges brought before the committee at that time in such a way as to try to defend myself from attack and, at the same time, not parade in public all the weaknesses in the administration of the bureau and of the system that had prevailed previously. If I had chosen to defend myself by making a full explanation at that time, I felt it would have been very disadvantageous to the credit of the system.

As a matter of fact, I had no feeling that I had the right to represent anything unduly and untruthfully optimistically, but I felt that a public discussion at that time of all the conditions that had grown up—and I did not care to criticize my predecessors in the bureau—would do nothing but a great deal of harm to the land bank system that I was trying to help.

Senator CAREY. Was it not a fact that some of the Federal land banks were in very bad shape and that the other banks had helped them?

Mr. MEYER. Several of the Federal land banks were faced with real problems. The Spokane Land Bank received some help from the 11 others some time before I took office. I have forgotten the date, but since then none of the land banks has been helped by the others in the sense of receiving loans to help work out their problems.

The Spokane Land Bank was fully discussed in the hearings at that time. A good deal of the hearings were off the record because I asked that material that would reflect injuriously on the credit of the Federal land banks and joint-stock land banks be eliminated from the record, although I disclosed a good deal to the committee that was examining me at the time.

The conditions in the bureau were such that it seemed to us that a great deal of the work that ought to have been done, in fact, that should have been done to meet its responsibilities under the law, had not been done. In fact, we found that there was a lack of proper business methods in the bureau and some of the banks. The files in the bureau were more or less useless because they were not systematically arranged. We had the bureau of efficiency go in there and make us a report, and it took a large number of people and a considerable period of time to reorganize and index the files; also, of course, additional expense to do the work that should have been done right along.

The minutes of the board meetings were not indexed; they were not permanently bound, and of course it was extremely difficult to get the record of what the board had decided on various points in question, because of that fact.

One of the things that struck me as most important was the question of farm loan association examinations in the Federal land bank system. As you know, Mr. Chairman, the Farm Loan Association is the mutual cooperative credit foundation on which the whole Federal land bank system rests.

Apparently the board had not taken that part of the organization very seriously. There were 900 reports of examinations stuck away in a room there that had never been reviewed or considered in the bureau. These reports getting little or no consideration in the bureau, naturally the examiners were very careless in making examinations and in making reports.

At the end of a year, the bureau threw away the quarterly reports submitted by National Farm Loan Associations; in other words, they were not retained as permanent records as they should have been.

There was no systematic supervision of the examinations of the Farm Loan Associations.

On the question of appointment of directors and some of the employees of the bureau, I think it is fair to say that they were in many cases apparently made on a political basis rather than with respect to the work and the qualifications of the men for the work.

I will say that we found that the examinations of the land banks and the joint-stock land banks had been inadequate and did not fully meet the requirements of the law.

The statements of some of the banks to the Farm Loan Board, which were published by the Farm Loan Board, were in many respects at that time false and misleading.

There was no uniformity in accounting among the banks. Therefore a balance sheet or an operating statement of the banks could not be interpreted intelligently by the most careful student of the figures. That, of course, and the other things that I have mentioned, we undertook to correct and improve.

In some instances, issues of capital stock and bonds by joint-stock land banks had been approved which perhaps should have been disapproved. Occasionally investment houses selling securities of the banks used reports submitted directly by the banks to them instead of the official reports, although the official reports were none too accurate.

The advertising literature that had been put out by some investment houses was misleading and was phrased very much in the direction of trying to give the investor an impression that the joint stock land bank and Federal land bank bonds were substantially Government bond issues, although not technically so. They would say something like this: "While these bonds are not guaranteed, they are instrumentalities of the United States Government."

The ordinary investor reading that phrase, "instrumentalities of the United States Government," would think, "Well, they are not United States bonds technically, but practically." That is the technical legal phrase used in the law and by the Supreme Court in its decision upholding the right to issue tax exempt bonds. While as used in the law and by the Supreme Court it referred only to tax exemption, it was used widely in circulars in a way that was likely to give investors the feeling not merely that the bonds were tax exempt, but that they were almost Government bonds.

We went to work and, I think, eliminated that to the extent that we could, although we did not have control over investment bankers or their circulars, nor did we have censorship, but by patient work I think we obtained their cooperation on that point, because we went to them with the simple proposition that the truth in advertising is better than the other thing; and it was eliminated.

Another thing that was wrong in the organization of the board, it struck myself and my colleagues, was that the board functioned in departments. There was a board of six, divided into departments. My experience is that a board in Washington, in order to function successfully, must function all together and that the departmentalizing must be in the organization under the board.

We changed all that, and all of the members of the board knew all about all of the business as long as I was there, and I am sure they still do. The result was very good, because previously the board had been split up into factions voting against each other and, in many cases, not arriving at decisions, in part at least because all of the members of the board did not know all about the business. One man would have one view and somebody else another. As a matter of fact, the reorganized board operated harmoniously, and that was due in no small measure I think, to the fact that all of the members were in on all of the business.

I found, Mr. Chairman, that the attitude of previous commissioners had been to magnify the importance of the farm loan commissioner. A good deal of the work and business was conducted by the farm loan commissioner as such, without always consulting the board.

I did not think that was good business or sound administration, and I always had the board act instead of the commissioner whenever it was possible and whenever the law did not provide that the commissioner had to act as such.

The board thereafter functioned, as Congress intended, I think, collectively and not individually.

When we came in we found that the president and officers of the Federal land banks and of the joint-stock land banks complained a great deal about inability to get decisions, and I thought that their complaints appeared justified. I attributed some of the delay and difficulty to the fact that the board had not had the conception of a collective unit functioning together.

The checks drawn in connection with bond and debenture transactions were signed by the farm loan commissioner alone. That involved very large amounts, and I did not feel that that was sound. I therefore had all such checks signed by two instead of one—the secretary and general counsel and either the commissioner or the acting commissioner in his absence.

Senator Brookhart. What instruments were those?

Mr. MEYER. Checks drawn in connection with bond and debenture transactions.

The rules and regulations were poorly compiled. We went to work on the task of revising them, and I think the work that was done on them was done thoroughly.

There was not an adequate supervision of the lending rates, which under the law can not exceed by more than 1 per cent the borrowing rates. Particularly we had a bad situation in the fact that there was little uniformity in the relations between the various Federal land banks and their farm loan associations.

In the Texas district, for instance, the theory of the bank was that the farm loan association was a very important factor under the law, and they were cultivated to a considerable extent. Some of the other banks just said, in effect, "Well, the farm loan associations don't amount to anything and we will not bother about them."

There were all kinds of different ways of conducting the relations between the banks and the farm loan associations. We tried to improve the situation and I think we succeeded.

Appraisers had been appraising land without having had much contact with or instructions from the bureau. Meetings of appraisers were held in different parts of the country. They were brought into these conferences and general instructions were given them. There was little coordination between the work of the examining division and the appraisal division. They were working more or less independently, and of course that was unsound, and we worked with a view to closer coordination of those two very important divisions.

The board had agents in each Federal land bank district who were called registrars. They were the men who held the collateral for the bond issues, amounting to $1,800,000,000. They were all acting without any formulated general instructions to guide them in their work and steps were taken toward correcting that situation.

We inquired of the registrars whether they were accepting delinquent mortgages as security, and found that they had not been examining the collateral with a view to finding out whether or not the mortgage was delinquent when it was put up as security in the first instance.

There was a vast number of things, Senator. For instance, the chief of the bond division in Washington, the registrars and the employees under the registrars, were not adequately bonded. We corrected all that.

Many of the statistics were inaccurate as published, and there was no uniformity in their compilation. There was considerable duplication. When we went into the files we could not find the by-laws of some of the banks and of many of the farm loan associations. There was not a property record kept in proper shape; no adequate books of record of issues of farm loan bonds or intermediate credit bank debentures had been kept. There was no check up on transportation requests. There was a multitude of small and large things; but in the two years the bureau was reorganized and all of the major problems attacked and substantial progress, if not complete improvement, was made.

Naturally we found some resistance against our ideas in some of the banks, but we tried either to visit the banks that did not understand our point of view and get their point of view and find out what the difficulties were, or we had them come down here.

I should say that what we were trying to do in a broad way was to make the banks feel in the first place that they had a bureau that was trying to render them a service instead of trying to annoy them; that was trying to help them and work with them and bring the banks into better condition and a more useful capacity for service. I think the large majority of the banks soon got to feel that that was our fundamental attitude.

Senator CAREY. Did you make many changes in the directors of the various banks?

Mr. MEYER. We made some changes in the Federal land banks where our appointees were concerned. I think the most important change was a fundamental change in the system of appointments of officers of banks.

When we went in there we found that the vice president, if there was one, as well as the president and the secretary and the treasurer and in some cases the general counsel were all offices which were given to directors, so that in some cases a majority of the board of directors consisted of officers of the bank.

That seemed to us very unsound, because what the banks need are boards of directors that will act as a check on the officers; and I think almost all, and by this time perhaps all, of the banks have amended their by-laws so that the officers of the bank, except the president, who ought to be on the board, are not directors.

We found that the officers in some banks were perpetuating themselves in office and were not properly administering the affairs of the bank. In one case particularly I remember that we had a meeting of all of the directors of a bank, and the outside directors, as we call them—that is, those who were not officers—found that officers of the bank had not been frank in telling about the condition of the bank as we discussed it with them, but had withheld knowledge and information concerning important facts in the administration of the bank from the directors who were not officers. The questions we raised were questions of administration which reflected on officers who were also directors.

It was our object, Mr. Chairman, not to eliminate any good man that could possibly be kept, because to get people to do this work is extremely difficult. There was so much to be done that we were not looking for any unnecessary removals.

Our power to remove, of course, was restricted to the appointees of the board. But as these conditions developed and the boards of directors in some of these banks got better acquainted with the situation, closer in contact, they themselves, in many cases, took action to remove officers or directors, and there were a good many changes.

On the question of secretary-treasurers of farm loan associations, the act provides that a secretary-treasurer of a farm loan association who turns over to other agencies eligible business which comes to him shall forfeit his office. One of the land bank presidents complained that he had not been able to get the cooperation of the board in Washington in bringing about the removal of such disloyal secretary-treasurers, and we undertook to support the bank in question, and a number of secretary-treasurers in that district who had been disloyal to the land bank system were eliminated. We had no desire to see anybody removed who could be kept and who would be useful and competent.

The examination work of the farm loan associations perhaps had been the most neglected phase of the work, taking it as a whole; but when the examiners were increased in number and efficiency a great many defalcations were developed. Of course I would not say a great many compared with the total number; I will say very few, but a good many, anyway, in number, and it was our unpleasant duty to refer such cases to the Department of Justice.

There were other prosecutions by that department, and a number of them were instituted before I became commissioner.

The law provides for the method of dealing with criminal violations of the act. The bureau is not a prosecuting agency. It refers anything of that kind to the Attorney General for such action as he may, after investigation, deem necessary. It was a rather sad and unpleasant part of our duties to have to deal with those cases.

I feel, Mr. Chairman, that a good many of the men went wrong because of the neglect of the bureau to examine those associations promptly from the beginning and continuously. Such a neglect led to temptation of men who were weak and could not resist it, because they were receiving and disbursing money with no adequate check-up on their operations.

Senator CAREY. Were those defalcations in the banks or the associations?

Mr. MEYER. I was just talking about the associations. In the banks there were some minor cases of defalcations, but I would not say that there was anything on a large scale that I can remember.

There was a good deal of loose practice generally. As a matter of fact, we found at the time we went in there that in some banks the titles to the land securing many mortgages were in the names of dummies—nominees of the banks—and yet the mortgages were carried in the assets of the banks as loans. We thought they were real estate in the sense of the act and should be shown as such. Objection was made, and the excuse given for the dummy holders of such real estate was that if the property were held in the name of the bank—the real owner—it would not be as marketable or have as good a reputation, or that there would be a merger of the mortgage and the title. I felt that that was an alibi rather than an explanation. I think it is safe to say that the statements of the banks—the joint-stock and Federal land banks—are now as nearly accurate and as nearly a true reflection of the condition of the banks as it is possible to get. They are also uniform in their methods, and I believe that the reports published by the land-bank system—published by the bureau on the basis of the banks' reports to it—are at the present time pretty close at least to an honest and truthful reflection of the condition of the banks and of the system.

The question of appraisals was important. We tried to get the appraisers to act in what I would call an intelligent and liberal way without going to the point of unsoundness. What I told the reviewing appraisers when I had occasion to meet them, and the appraisal department said, was that when land was depressed it was good business not to be panicky about it, and that the knockdown, quick-sale value of farm lands should not control their appraisal attitude too much; that rather the going value of the farm as a going concern should control their attitude to a reasonable extent. Of course, they can not set up artificial values and valorize farm lands, as that would be an injustice to the system and the investors, but I had the fear that maybe they might go too far, in view of the mistakes of over-appraisal in the past, and undervalue farm lands.

As I have occasionally said, I believe in good farm lands as having a permanent value in the long run, and nothing that happens shakes my confidence. But the trouble in the system did not come so much from the good farm lands; it came from a lot of loans that were made by banks on farms that were not good farms; and particularly I will say that the Bankers Joint-Stock Land Bank of Milwaukee, apparently in a desire to do a large volume of business made some loans on cutover timberlands in its territory that should not have been made at all. Some of them were not really farm properties; and the largest losses in that bank resulted from loans that should never have been made at all on any appraisal.

Senator CAREY. The banks to-day own a good deal of land, do they not?

Mr. MEYER. Yes; they own a good deal of land, but not in proportion to the total assets of the system.

Senator CAREY. Do many of these loans on the land that they have go back to 1921, lands that they acquired at that time and that they still own?

Mr. MEYER. I can not say as to the dates. The system did not have in 1921 such an enormous amount of business. It began to function when the act was passed, and then there was a period when the constitutionality of it was in the courts. I have forgotten just what year that was; but during a certain period they could not sell any bonds and therefore did not make any loans.

Senator CAREY. The reason I asked that question is this: Have not the banks land they loaned money on and which they have not been able to sell?

Mr. MEYER. Yes. In the Spokane district, loans were made in one section, on lands which were supposed to be wheat lands. You probably know the territory I have in mind, where a crop of wheat was made one or two years and very little thereafter. There were loans made, and I am told that some men who took up a piece of land under the homestead act never plowed a furrow. Of course the bank bought the land; it did not make a loan on it.

So, in various parts of the country, various mistakes were made; but on that, gentlemen, I do not want to be too critical. It was a new system and it grew rapidly, and I do not want to criticize my predecessors unduly. I do not mind enumerating the points that we thought were weak and that needed remedying; but you can not get everybody you would like to get to come down to Washington to do these jobs, and some of the people that want to do them are not always the best men to do them.

I had the feeling, as I said at the last meeting, I think, and frequently before, that the fundamental idea of the Federal farm loan system, with the associations and the land banks and the appraisal and examining system, properly carried out, is sound and will stand if properly administered; but it takes a good deal of real supervision and industry and hard work.

Senator CAREY. There has really been no movement in land since about 1921, has there? That is, no demand for land?

Mr. MEYER. There has not been any rising market. There has been a declining market for land, rather, but a lot of land is being bought and sold all the time, and good farmers are adding to their land and a good many farms are being bought and sold.

Senator CAREY. Mostly at low prices?

Mr. MEYER. By neighboring farmers. There has been little immigration of new farmers to take up new land or old land as there used to be.

Senator CAREY. Most of these sales are at low prices?

Mr. MEYER. Most of them are at low prices comparatively. However, I am not, as I say, familiar with all of the latest details, because I have been out of the situation for two years.

Senator FLETCHER. The bank loans increased very rapidly in 1922, 1923, and 1924. They got so they were loaning a million dollars a day about that period.

Mr. MEYER. Yes; that was one of the disasters of the system, Senator, that they loaned too fast.

Senator FLETCHER. They had to do it to do business and accommodate agriculture.

Mr. MEYER. The question is whether that was what they were doing. Loans on cut-over timberlands in northern Wisconsin did not really accommodate anybody but the fellow that got the money, and were not much help to agriculture.

Senator FLETCHER. Are there any other instances of that kind?

Mr. MEYER. Yes; all over the country.

Senator FLETCHER. You claim, then, that the Farm Loan Board at that time was making reckless loans all over the country?

Mr. MEYER. No; I did not say that. I said there were examples of it, of poor lending judgment, a poor loan judgment. I cited to you some loans in one or two sections, but I do not want to give you the impression that that dominated the major loans of the system. Otherwise I would not be expressing the confidence in the fundamentals of the system that I do express, Senator.

There was no adequate legal department in the bureau. Necessarily the Federal Farm Loan Bureau has to do a lot of legal work. There is there now and has been ever since I went there, as quickly as we could build it up, a very good legal division, and some of the important and difficult legal questions that had never been settled over a period of years but that the banks had been thinking about, talking about and discussing, were taken up in conferences between the legal department of the bureau and the counsel of the Federal land banks, and settled.

Senator FLETCHER. You spoke about the examiners. Do you recall, Mr. Meyer, that immediately after you went in you increased the number of examiners?

Mr. MEYER. Yes. They had to be increased very greatly.

Senator FLETCHER. I think the appropriation the year before you went in was something like $15,000 for examiners, and you got it up to $85,000, to begin with.

Mr. MEYER. Yes; the appropriation was materially increased, but I do not recall the figures.

Senator FLETCHER. And do you not know that the old board had been trying their best to increase the number?

Mr. MEYER. Then, I say that the Congress of the United States completely failed to realize the importance of that examination work.

I said before you came in, Senator, that I did not want to go into so much of this, because I did not want to criticize my predecessors on that board; and as you remember——

Senator FLETCHER. It was not so much the Congress, as I recall, but the Director of the Budget would not approve their estimate and their request.

Mr. MEYER. Well, Senator, when I got in there the Director of the Budget cut us down, and I went over to the President of the United States, over the head of the Director of the Budget, and said, in effect, "Either give us the money that will enable us to conduct this bureau properly, or you can not expect us to bring results." And we got exactly what we wanted every time.

Of course I think it is important to have people in the bureau who get results. If it is a question of getting money from the Budget Bureau, that is one result.

I do not think that I have been unduly severe on my predecessors; and before you came in I said I did not want to be. You remember when I was up for confirmation before, Senator, that I had a lot to say to the committee off the record, because I did not want to be in the position of criticising unduly my predecessors.

Senator FLETCHER. Yes.

Mr. MEYER. And also because I wanted to protect the credit of the land-bank system.

Senator FLETCHER. I remember that; and I remember that you said at that time that you had not bothered about what had preceded; that you were looking ahead and that you had not gone into the question of the shortcomings of your predecessors.

Mr. MEYER. To make progress we had to find out where the deficiencies really existed, didn't we?

Senator FLETCHER. Oh, yes.

Mr. MEYER. We could not find out what had to be done except by examining what was being done.

When I resigned I had a letter from the president of the Federal Land Bank of Omaha, dated May 3, 1929, and his expression, if I may read it, gives you a picture——

Senator BROOKHART. Who is that from?

Mr. MEYER. The president of the Federal Land Bank of Omaha, who had been in the system since it started. He said, under date of May 3, 1929:

> It was with genuine regret that I read the announcement of your resignation as member of the Farm Loan Board this morning.
>
> You have done a monumental work in reforming and reorganizing the Federal farm loan system in the short time, less than two years, that you have been commissioner.
>
> I had become greatly discouraged regarding the future of the Federal land bank system before you became commissioner. The management of a number of the banks was very bad and they were being allowed to drift along from bad to worse without any effort being made for improvement. Within the short period of your administration, you secured the removal of the unfit and incompetent officers of the weak banks and replaced them with strong and capable men who have the experience and ability to administer the affairs of the banks in a first-class manner.

Furthermore, you and your able assistants——

And I want to tell you that if I had not had those able assistants, I could not have done much.

have reorganized the bureau, so that it is giving first-class supervision to the banks in the system. While it will take time for the system to recover from the mistakes of the past, it is encouraging to know that we are going in the right direction—the management of the banks are good and that the organization that you have built up in the bureau will continue to function.

It has also been a very great pleasure for me to work with a man who has such a large grasp of financial affairs. While I realize that the routine work of the bureau, after you had accomplished the big task of reforming and reorganizing the system, would not be attractive to you, it is a pity that we can not continue to have the benefit of your counsel and advice in the financial affairs of the banks.

As I grow older, I realize more and more, that a man's reward comes only in the consciousness of important work well done. Your reward will come as the days go by in the knowledge that you have rescued these banks from serious difficulties and reformed and rebuilt the system and placed these cooperative institutions on a sound footing so that they may render to the farmers who are the bulwark of our country, the great service for which they were intended.

I especially enjoyed my association with you as a member of the bond committee.

I hope that you will continue your interest in the banks and meet with us occasionally and give us the benefit of your counsel and advice.

With kindest personal regards, I remain,

Very truly yours,

D. P. Hogan, *President.*

Senator Brookhart. With respect to that letter, I would like to ask a few questions. Mr. Hogan is president of the Omaha bank, in which Iowa is included, is he not?

Mr. Meyer. Yes.

Senator Brookhart. What is his salary there?

Mr. Meyer. I do not know, to tell you the truth.

Senator Brookhart. How much has it been increased since you came in?

Mr. Meyer. I do not remember if it was increased. It may have been, because we did approve increases in the salaries of some of the presidents of the banks who seemed to deserve them.

Senator Brookhart. Let us see how it was deserved in this case. In 1929 the loan association at Cedar Rapids, and another at Ottumwa, both of which have been on the honor roll for 11 years, never having a default of interest on a loan, or a full foreclosure, sent in—speaking from recollection—26 applications for new loans, on which they were jointly liable in the two associations, as I remember it, and only one was approved. Word came back to them that the appraisements were too low, but one day somebody from the office, to let them know what was going on, sent out a list of the appraisements, and every one of them was all right, and should have been allowed. Do you consider that functioning for the service of the farmers of the country?

Mr. Meyer. I would have to know more about it to have an opinion. I hear what you say, but I would like to hear the other side before I have an opinion. We did not hesitate to criticize the conduct of Mr. Hogan, or anybody in his bank, if it was necessary. If you remember, you got a letter from Mr. Beck, who had been secretary of the association——

Senator Brookhart. Approving your confirmation.

Mr. Meyer. Yes; and also speaking of complaints that he had had against the bank, which he had discussed with me, and stating that I had taken up the matter with the bank and the matter had been remedied. I do not say that Mr. Hogan is perfect. I do not know that any one of us is.

Senator BROOKHART. Since your administration is when Mr. Beck came to me with this complaint I have just recited, and all during your administration of the bank——

Mr. MEYER. Mr. Beck wrote you a letter indorsing me, and, at the last hearing when I was up for confirmation, you said that you would like to introduce a letter into the record.

Senator BROOKHART. Yes.

Mr. MEYER. In which he withdrew that recommendation.

Senator BROOKHART. I have another letter.

Mr. MEYER. You did not introduce that letter into the record, and Mr. Beck told me that he had not written you such a letter.

Senator BROOKHART. I have it, and he has been to see me since.

Mr. MEYER. Mr. Beck told me he had not written you such a letter. I did not ask him. I happened to meet him in Omaha.

Senator BROOKHART. When?

Mr. MEYER. While I was in the system.

Senator BROOKHART. You did not meet him since these complaints he made in 1929?

Mr. MEYER. I have been out of the system since May, 1929. I do not know anything about what has happened since.

Senator BROOKHART. It was about April or May.

Mr. MEYER. If it was April or May, I do not know anything about it, because I got out in May, but I am pretty sure that if you would work with the bureau, the bureau would take up any complaint that you or anybody else had any justification for making, and try to do something about it.

Senator BROOKHART. As I recollect it, I sent these complaints to the bureau.

Mr. MEYER. You did not send them to me, Senator. I never had any communications from you that I recall. I would have been very glad to cooperate with you in doing anything that could have improved the administration.

Senator BROOKHART. There is such a vast difference between your kind of cooperation and mine, that I do not know whether we can cooperate, or not.

Mr. MEYER. Why don't you try and find out? You have not made an effort.

Senator BROOKHART. I tried to find out, but I have failed to find anything but Wall Street cooperation when I get up close to you.

Mr. MEYER. Senator Kenyon, who is a pretty good man in your State, wrote me a letter, which is in the record of the last hearings, which showed that he and I cooperated with great advantage to the people of Iowa. That is what he thought.

Senator BROOKHART. You went out and took the opposite side from the Wall Street crowd.

Mr. MEYER. I am not talking about that.

Senator BROOKHART. They always send somebody out to do that.

Mr. MEYER. I am talking about the work of the War Finance Corporation in 1921.

Senator BROOKHART. Yes; I know all about it.

Mr. MEYER. His letter is in the last hearing.

Senator BROOKHART. I know all about his letter, and I know what he thinks now.

Mr. MEYER. He has not written anything to the contrary.

Here is a letter from the Federal Land Bank of St. Louis. I would like to say that I did not solicit any of these letters. This was a resolution passed by the board of directors [reading]:

THE FEDERAL LAND BANK OF ST. LOUIS,
*St. Louis, Mo., May 14, 1929.*

Mr. EUGENE MEYER,
*Federal Farm Loan Board, Washington, D. C.*

MY DEAR MR. MEYER: I take pleasure in quoting a resolution passed unanimously by the board of directors of this bank at a board meeting held May 10, 1929:

"Whereas Mr. Eugene Meyer, as a member of the Federal Farm Loan Board and as farm loan commissioner, has rendered a most distinguished and valuable service to the Federal farm loan system; and

"Whereas Mr. Meyer has now seen fit to sever his official connection with the board:

"*Resolved,* That we, the board of directors of the Federal Land Bank of St. Louis, express to Mr. Meyer our deep appreciation for his splendid constructive leadership as farm loan commissioner, and our sincere regret at the severance of his official relations with the Federal farm loan system."

Yours very truly,

O. J. LLOYD, *Secretary.*

Senator WAGNER. What is the date of that?

Mr. MEYER. May 14, 1929, at the time I resigned. The other was May 3, 1929.

Here is a letter from Mr. Vaiden——

Senator BROOKHART. He is another man drawing a big salary.

Mr. MEYER. Mr. Lloyd is secretary of the Federal Land Bank of St. Louis. I do not remember that I ever saw him. What I read is from the board of directors of that bank. Why don't you try to be fair, Senator.

Senator BROOKHART. I just had a telegram from another man connected with that bank, that may be in here before this hearing is over.

Mr. MEYER. Here is a letter from the president of the Federal Land Bank of Louisville, whom I did not appoint [reading]:

THE FEDERAL LAND BANK OF LOUISVILLE,
*Louisville, Ky., May 3, 1929.*

Hon. EUGENE MEYER.
*Farm Loan Commissioner,*
*Federal Farm Loan Board, Washington, D. C.*

DEAR MR. MEYER: I have just noticed by press reports that you have resigned as farm loan commissioner and as a member of the Federal Farm Loan Board.

I hasten to express to you my regrets over your resignation and wish to say that in my contacts with you I have been impressed with the very wise and efficient manner in which you have presided over the board and the fine spirit of cooperation I have experienced with you in that capacity. I feel that the Federal farm loan system is losing not only a highly efficient man as farm-loan commissioner, but one who has at all times been most sympathetic with its operation in its service to American agriculture.

Wishing you continued success in whatever field of operation you may choose to enter, I am

Very sincerely,

JAMES B. DAVIS, *President.*

Senator FLETCHER. What was the other bank?

Mr. MEYER. The St. Louis Federal Land Bank.

Here is one from the Baltimore Federal Land Bank [reading]:

THE FEDERAL LAND BANK OF BALTIMORE,
*Baltimore, Md., May 6, 1929.*

Hon. EUGENE MEYER,
*Farm Loan Board, Washington, D. C.*

DEAR SIR: It is with sincere regret on the part of all of us that we note your resignation as farm-loan commissioner and member of the Farm Loan Board.

It is a distinct loss to this system to have you leave it. We need a man of your knowledge and experience at the head of this business, and we are sorry that our official association will be severed.

With every good wish for your future happiness and prosperity, I am,

Very truly yours,

V. VAIDEN.

I did not appoint Mr. Vaiden.

Here is a letter from the president of the Federal Land Bank of Berkeley, Calif., whom I did not appoint [reading]:

THE FEDERAL LAND BANK OF BERKELEY,
*Berkeley, Calif., May 16, 1929.*

Hon. EUGENE MEYER,
*Farm Loan Board, Washington, D. C.*

MY DEAR MR. MEYER: All of us who are familiar with your work as farm loan commissioner regretted to note in the press, on May 2, that you had resigned as farm loan commissioner and member of the Farm Loan Board.

You took the office of farm loan commissioner during a critical time in the history of the farm loan system. In a very short time the results of your efforts were apparent. The system is in much better condition because of your service.

I, personally, have appreciated what little contact I have had with you as commissioner. I have appreciated your advice and assistance, and I hope that I may have the privilege of seeing you from time to time in the future.

With best regards, I am,

Very sincerely,

W. D. ELLIS.

Here is a letter from the president of the Federal Land Bank and Intermediate Credit Bank of Columbia, S. C., Mr. Frank H. Daniel. I will just read an extract from this [reading]:

It has been a pleasure for me as an officer of one of the banks of the system to work with you and receive your helpful suggestions and full cooperation in attempting to improve and strengthen the position of this bank thereby benefiting the system as a whole. I have watched with interest and pride the improvement in the administration under your guidance as farm loan commissioner. It is a distinct disappointment to me for you to tender your resignation and for it to be accepted by the President. The system as a whole will greatly miss your counsel and advice in the handling of the important problems confronting it at this time.

I have here, also, a resolution from the board of the New Orleans bank. It is a long resolution. If you want to have a copy of it, you might put it in the record.

Senator FLETCHER. I think it should be in the record.

(The resolution referred to is as follows:)

THE FEDERAL LAND BANK OF NEW ORLEANS—CERTIFICATE OF SECRETARY OF THE FEDERAL LAND BANK OF NEW ORLEANS OF ADOPTION OF RESOLUTION

I, J. M. Koonce, secretary of the Federal Land Bank of New Orleans, do hereby certify that at a meeting of the board of directors of the Federal Land Bank of New Orleans, held at its banking house on May 9, 1929, at which meeting the following directors were present, to wit: T. F. Davis, J. V. De Gruy,

J. M. Koonce, R. T. Goodwyn, J. S. Allen, and A. H. Stone, the following resolution was adopted:

"Whereas the directors of the Federal Land Bank of New Orleans have been advised of the resignation of Mr. Eugene Meyer as commissioner of the Federal Farm Loan Board and as a member of the board; and

"Whereas it is proper that said directors should take official notice of such resignation, as a matter of concern both to this bank and to the entire land-bank system: Therefore be it

"*Resolved by the board of directors of the Federal Land Bank of New Orleans*, That we genuinely regret Mr. Meyer's resignation, and we regard his severance of relations with the Federal Farm Loan Board as a definite loss to the board and to this bank.

"In accepting the place of commissioner of the Federal Farm Loan Board Mr. Meyer assumed the discharge of duties of administration which would have challenged the executive capacity of any man in American public life. He has fully measured up to every requirement of the position and has unquestionably added very material elements of strength and stability to the Federal land-bank system. He has been exacting in his insistence upon the observance of the strictest business methods in the transaction of the bank's affairs, but he has always been scrupulously fair.

"The directors of this bank wish to bear witness to Mr. Meyer's sincerity of purpose and to his high sense of devotion to the welfare of the interests intrusted to him. And it is a source of satisfaction to us at the present moment that we have to the fullest possible extent consistently cooperated with him and with his associates in every effort toward better administration, sounder policies, stricter methods, and a more permanently useful service.

"We wish to make it clear that these resolutions are neither perfunctory nor pro forma, but that they express the deliberate sense of our directors, individually and as a board. And we wish to convey to Mr. Meyer's successor and associates our assurances of continued cooperation and support."

Said resolution is duly recorded in the minutes of the board of directors of said bank on page 1605.

[SEAL.] J. M. KOONCE, *Secretary.*

Mr. MEYER. Then, there was a resolution from all the presidents of tne Federal land banks. They say [reading]:

*Be it resolved*, That at this the first meeting of the presidents of the Federal land banks since the resignation of the Honorable Eugene Meyer as a member of the Farm Loan Board, we take this means of formally expressing our sincere appreciation of the able and valuable service rendered the farm loan system during his service as farm loan commissioner, and assuring him of our high regard and esteem, and he has our continued best wishes; be it further

*Resolved*, That this resolution be spread upon the minutes of this meeting and a copy be sent Mr. Meyer in order that he may know that both he and his able service are sincerely appieciated by all of us, who benefited by his wise counsels and who by his zeal and purpose, helped to strengthen and improve the administration of the Federal land-bank system.

E. H. THOMSON, *Secretary.*

Adopted at conference Federal Land Bank Presidents October 1, 1929, Washington, D. C.

I merely introduce those, gentlemen, for the purpose of showing that some of the gentlemen in the system had a fairly friendly attitude, based on their contact with the work. None of them were particular personal friends of mine. I do not think I ever saw any of them, except in the most casual way, before I went into the work of the bureau.

Senator FLETCHER. Do you know the extent of the loans being made when you went out, Mr. Meyer?

Mr. MEYER. I can not give you the figures. I have a pretty good memory, but I can not remember everything. Of course, the big demand for land loans came in 1922, 1923, 1924, and 1925. After the deflation in commodity prices, a great deal of debt was created, and that was secured by land. The land banks got an entirely abnormal amount of business, and other lenders had, similarly, an abnormal amount of business.

Senator BROOKHART. What is the total amount of mortgage loans that the farmers of the United States get?

Mr. MEYER. I have not the figure in my head, Senator.

Senator BROOKHART. It is around $9,000,000,000, is it not?

Mr. MEYER. I thought that the Federal land bank system had about one-eighth of the total. I remember that figure. If that were so, then the total would be somewhat larger.

Here is a letter from Mr. Hendrick, president of the California Joint Stock Land Bank of San Francisco. I mention this because he was president of the Joint Stock Land Bankers Association, and naturally was a prominent joint-stock land-bank man. He wrote on May 2, 1929 [reading]:

> I regret to learn through the public press that you have resigned from the Farm Loan Board.
>
> Your services have been so strikingly beneficial to all banks in the farm-loan system that it is a matter of very grave concern to have to lose you.
>
> I trust that you will find some place, however, in the Government service where you can continue your interest in the farmers of this country who should be and are I know grateful for what you have done.

I could give you some others, but it is not, perhaps, worth your time.

Senator CAREY. Do you want to put those in the record?

Mr. MEYER. Yes; I will send them, or extracts from them, to you later.

(The matter referred to is as follows:)

E. M. Ehrhardt, president the Federal Land Bank of Spokane, Spokane, Wash., May 2, 1929:

"I was much depressed this morning on reading a Washington dispatch in our local paper which carried the news of your resignation as farm-loan commissioner, and I am prompted to express the hope that this development does not mean your complete severance of contact with the farm-loan system.

"Your leadership has always inspired our best effort in the work, and to me personally the contacts of the past 18 months have been nothing short of a liberal education in highminded business methods and unselfish public service."

Board of Directors of the Federal Land Bank of St. Paul, May 18, 1929:

The following resolution offered by Mr. Erickson, seconded by Mr. Torgerson, and duly carried, was adopted at a meeting of the board of directors of the Federal Land Bank of St. Paul, May 18, 1929:

"Whereas the Hon. Eugene Meyer has, for a period of about two years, served as a member of the Federal Farm Loan Board and farm-loan commissioner, which said board has supervision over the Federal Land Bank and the Federal Intermediate Credit Bank of St. Paul, with other banks of like character; and

"Whereas the said Eugene Meyer has given unstintingly of his time, and in all things asserted every effort and lent every assistance to the improvement and stabilization of the rural-credit system, which is under the supervision of said board; and

"Whereas the Federal Land Bank and the Federal Intermediate Credit Bank of St. Paul have been greatly benefited, and have profited immeasurably by virtue of his valuable service, to the end that public confidence has been strengthened in a way that is merited:

Now, therefore be it

"*Resolved by the members of the board of directors of the Federal Land Bank and the Federal Intermediate Credit Bank of St. Paul, in regular session assembled,* That we express and extend to the said Eugene Meyer our sincere appreciation for his assistance and service as aforesaid, coupled with our regrets at losing the same, and that we wish him every success and happiness in whatever he may choose to do in the future; be it further

"*Resolved,* That this resolution be spread upon the minutes of this board, and that a copy thereof be forwarded to Mr. Meyer, and to the Federal Farm Loan Board."

This is to certify that the above is an excerpt from the minutes of the meeting of the board of directors of the Federal Land Bank of St. Paul held on Saturday, May 18, 1929.

F. G. WANEK, *Secretary.*

A. Kopperud, treasurer the Federal Intermediate Credit Bank of Omaha, Omaha, Nebr., May 28, 1929:

"It was a fortunate thing for the farm-loan system that you could be commissioner for two years and start the system back out of the bog and mire into which it has been sagging."

C. S. E. Holland, president First Texas Joint Stock Land Bank, Houston, Tex., May 9, 1929:

"This was a great surprise to me, though I might have known that you did not want to continue always. I am well aware of the fact that you have performed a wonderful service with the farm-loan system in devoting two years time to this work.

"As the President of one of the banks in this system (First Texas Joint Stock Land Bank), I want to thank you for the splendid work you have done for the Federal and joint-stock land banks. I want to especially thank you for the personal courtesies that you have always shown to me and the splendid cooperation we have had from the board since you have been in charge."

Wm. B. Lupe, president San Antonio Joint Stock Land Bank, San Antonio, Tex., May 7, 1929:

"I feel that the system has made greater progress during the two years you have been at the helm in stabilizing the system than it has made since the law was passed, and I only hope your successor will carry on your policies along the same lines you have adopted.

"This is the sentiment of all our directors, as we have talked the matter over, and it is with the deepest regret that we see you resign as farm loan commissioner."

John H. Griffin, President Southern Minnesota Joint Stock Land Bank, Minneapolis, Minn., May 8, 1929:

"While our problems are not entirely solved here, yet, with the help that we have received from you and your associates, we have been at least able to put our house in order and we hope, ultimately, to make a showing that will be satisfactory to all concerned and sincerely trust that the policy, which you have established, will continue under the new administration."

In other words, gentlemen, in the course of a very unpleasant duty of trying to reform a banking system of large proportions and make changes in the hope of improvement and betterment, changing some of the methods, and installing better systems to bring about closer supervision, which people sometimes feel is irksome, we nevertheless did it in such a way as, I think, gained the approval of at least the better members of the system and the presidents of both Federal land banks and joint-stock land banks. I can imagine that at times it was irksome, because it was a task of getting a lot of people who had been running along and doing what they wanted, to get in line and in step with a policy that would be harmonious and systematic throughout the system.

Senator FLETCHER. Did that add much to the cost of administration?

Mr. MEYER. Senator, our work added a great deal to the cost of administration. In the first place, the cost always should have been higher. As you state it, our predecessors tried to get more appropriations. If they did, they were right. But the money that has to be spent now, and is being spent, and was spent when I was there, in increasing amounts, is and was largely money that should have been spent from the beginning. The money that should have been spent from the beginning has to be spent now to overcome the troubles that arose out of not spending it. I think that bureau is being run just as economically and efficiently as any business in the United States Government or anywhere else in the United States.

Senator FLETCHER. Have you kept in touch with it since you went out?

Mr. MEYER. No. I just know from all I hear, and from the way it was left. I occasionally hear something about it, but I am not in close touch with the operation. How could I be?

Senator FLETCHER. I did not know whether you had any relation, business or otherwise, with the system since you went out.

Mr. MEYER. No; except when they come over to me and ask me to help them on something, I am glad to put myself out to do it. They asked the Federal Reserve Board to allow the Federal reserve branch bank in New Orleans to act as custodian for some of the collateral that the cooperatives put up to borrow on, and I took it up with the governor of the Federal reserve bank in Atlanta. In fact, he came up to Washington to discuss it.

Senator FLETCHER. In the intervening time, between your resignation as a member of the board, and your appointment on the Federal Reserve Board——

Mr. MEYER. No; I am talking about four weeks ago.

Senator FLETCHER. But, I say, during that intervening time between your resignation as a member of the board and your appointment on the Federal Reserve Board, were you in any business relations or connection with the Farm Loan Board, or in touch with it?

Mr. MEYER. No; absolutely not.

Senator FLETCHER. But you think that at present the administration is as economical as it could be?

Mr. MEYER. I have not any particular way of judging, but I have the feeling that the spirit of the organization is hard work, conscientious application, and sincere effort to do its job to the very best of its ability. But, as to what the business is in detail, I can not tell you, except that I can look it up in their quarterly reports and their annual reports.

Senator FLETCHER. I did not mean to interrupt.

Mr. MEYER. Some of the banks that were poorly managed are now among the best managed, both in the Federal land bank system and in the joint-stock land bank system.

After I went in there, there were three bond issues in all. The money was borrowed from the investors on the first two issues at the lowest price that the system had ever obtained. I do not give myself any particular credit for that, but at any rate, that is what happened, and I know it would be a charge against me now if it had been borrowed on less favorable terms.

Senator BROOKHART. How much were those issues?

Mr. MEYER. I do not remember exactly, but I think one was \$29,000,000; one was, roughly, \$25,000,000, and the third was about \$15,000,000.

Senator BROOKHART. Those were all the bond issues in the two years of your association with the board?

Mr. MEYER. When I came in, they had just sold \$100,000,000—on the 1st of May.

Senator FLETCHER. Do you remember the rates at which the bonds that you have mentioned were sold?

Mr. MEYER. The bond issue just before I came in was at 4¼ per cent. Two of the issues I mentioned were at 4 per cent; and the third was at 4¼. The first bond issue we made after I went in was in November, 1927, and that was $28,300,000. That was at 4 per cent.

Senator FLETCHER. That was in 1927?

Mr. MEYER. Yes. In June, 1928, there was $25,900,000 at 4 per cent; in November, 1928, there was $15,000,000 at 4¼ per cent.

Senator BROOKHART. Do you think the farmers can afford to pay even those rates of interest on the basis of the return they have been getting on their investments?

Mr. MEYER. I am not in the land-bank system now, Senator.

Senator BROOKHART. Do you think they could afford to pay it when you were in the land-bank system?

Mr. MEYER. Some of them certainly could.

Senator BROOKHART. Some of them could; but could they generally?

Mr. MEYER. I do not know that I care to generalize on that.

Senator BROOKHART. The only farmers you cared about were the big wealthy farmers.

Mr. MEYER. Of course, the rate charged by the banks on the basis of these bond issues was lower than that paid by the farmers in any other country in the world. How much do you think the farmers in Europe are paying for farm mortgage money? I am told that in some of the countries of Continental Europe they are paying from 8 to 10 per cent.

Senator BROOKHART. I did not find anything like that when I was looking through there.

Mr. MEYER. Didn't you? I am told that is about what it costs them in Germany. As a matter of fact, it must cost them that, Senator, because three years ago there was an issue over here, in dollars, for the land bank system of Germany, and the bonds were sold at better than a 6 per cent basis over here, to the investor. By the time it got back to the German farmer it must have cost him 9 per cent, because there were two or three agencies through which it passed.

Senator BROOKHART. Of course, Germany is terribly upset at the present time, but that was not true even when I was there, in 1923, and it was not true in any of the other countries. The big deflation came in Germany after I was there.

Mr. MEYER. I don't think any farmers are getting better loans on land——

Senator BROOKHART. You know, as a whole, that they have had no net income on their capital investment since 1920, do you not?

Mr. MEYER. No, I do not.

Senator BROOKHART. And in addition to that——

Mr. MEYER. I do not know anything of the kind.

Senator BROOKHART. In addition to that, the capital itself has been depleted, if the advance information from the census which I have is correct, to the extent of about $30,000,000,000. You do not know that? You have not heard of those facts?

Mr. MEYER. If they are facts——

Senator BROOKHART. You seem to know a good deal about making loans to a few big wealthy farmers, but I have not discovered in your statement yet much interest in the loans to the farmers at large, and in their condition.

Mr. MEYER. I do not think you will find that the bulk of the borrowers in the farm loan system, in the Federal land banks, are particularly large, rich, farmers.

Senator BROOKHART. No; but most of them went in before you did.

Mr. MEYER. I see.

Senator BROOKHART. In your two years you made only a very few loans compared to the whole system. There were only three little bond issues.

Mr. MEYER. Of course, two years is only a small part of the whole business.

Senator BROOKHART. But the people ahead of you were selling $100,000,000 of bonds.

Mr. MEYER. Yes. That was largely a refunding issue. They paid off $90,000,000 of other bonds.

Senator BROOKHART. How much did the total volume of these loans to farmers increase while you were in there?

Mr. MEYER. I could not tell you, because I have not the figures in mind. The income of the land banks from amortization payments is very large and that is available for lending in addition to the amounts they borrow. I think the amortization and other principal payments in the Federal land banks are about $50,000,000 a year.

Senator BROOKHART. Are they lending it out or are they buying their own bonds?

Mr. MEYER. I could not tell you.

Senator BROOKHART. What did they do while you were in there?

Mr. MEYER. They loaned it out, so far as I can remember.

Senator BROOKHART. In the joint stock land banks, they did not lend it out. They bought their own bonds.

Mr. MEYER. Some of them did. Some of them loaned it out.

Senator BROOKHART. Most of them bought their own bonds.

Mr. MEYER. They had to do whatever they thought was right. The farm loan bureau can not run the joint stock land banks' policies on all questions. I think the Federal farm loan system has been a great boon to the farmers, don't you, Senator Fletcher?

Senator FLETCHER. Undoubtedly.

Mr. MEYER. And the fact that you can get that money for 33 years, with amortization payments, has been a tremendous factor in reducing the rates from the other lenders. I think that is one of the most important things it did.

Senator FLETCHER. I think the farm loan system has saved the farmers from $400,000,000 to $500,000,000 a year in interest. It is a splendid system, and I have always been anxious to maintain it and see it prosper.

Mr. MEYER. It has to be run soundly, if you want to maintain it. You will agree with that.

Senator FLETCHER. What is that?

Mr. MEYER. I say, it has got to be run soundly.

Senator FLETCHER. I think 90 per cent of the effectiveness of the system lies in the administration. I think the law is sound, and I think the law is ample, generally speaking.

Mr. MEYER. You and I agree 100 per cent.

Senator FLETCHER. It is a question of administration.

Mr. MEYER. You and I agree 100 per cent on that.

Senator FLETCHER. What grieves me is to see it apparently breaking down, almost in a state of liquidation to-day.

Mr. MEYER. The joint stock land banks apparently are lending some money, and cleaning up troubles that have accumulated over a period of years. I want to say that I think they are making progress in the direction of getting back to useful activity. The Federal land banks have been lending a considerable amount, in addition to cleaning up the troubles that have arisen. As a matter of fact, there is not the demand for money on farm loans that there was. I do not see the point in insisting that you must lend a great volume of money whether or not it is wanted or needed. I do not think the quantity of loans is always a measure of the service. It depends on the conditions. I think the quality of the loans is important for preserving the permanency of the system.

Senator BROOKHART. You have loaned only one-eighth of the demand, according to your own statement.

Mr. MEYER. One-eighth of the total.

Senator BROOKHART. Yes.

Mr. MEYER. That does not mean one-eighth of the demand. A lot of farmers do not like to join a farm-loan association. You know that, Senator. They do not want to be liable for their neighbor's debts, which is what that means. A lot of them do. I do not see that you can go out and club farmers into borrowing your money on your terms, and under your conditions, if they want to borrow somebody else's money.

Senator BROOKHART. In the case of these 26 applications of the two associations at Cedar Rapids and Ottumwa——

Mr. MEYER. I do not know anything about them.

Senator BROOKHART. It would not have taken any clubbing to get them to take these loans.

Mr. MEYER. You are discussing a matter that I can not discuss with you because I do not know anything about it.

Senator FLETCHER. Since we are on that particular point, with respect to preserving and maintaining the system, according to communications coming to us, I think very nearly every Member of the Senate and the House has complaints that they are foreclosing mortgages and taking over farms where people are unable to meet their installments or interest and amortization. They are somewhat behind, and we get a good many letters saying, "We can not pay our installment, and they will not extend the time," and all that sort of thing.

Mr. MEYER. Senator, I do not believe any bank forecloses a mortgage if it can avoid it, because the last thing in the world it wants is the land. A bank would rather keep that farmer on the land than to get a new farmer, which is what it means. It is hard work to get good new farmers, and nobody in the system, either while I was there, or before, I believe, foreclosed anything where foreclosure could be avoided.

Do you not think that thorough examinations, with truthful statements upon which the people who buy the bonds will rely, are a vital and important factor in the system?

Senator FLETCHER. Undoubtedly. That is what I have asked for now from the Farm Loan Board. I want a statement showing that situation.

Mr. MEYER. That was one of the things that struck me as most important, that we felt had not been done.

Senator BROOKHART. When you took charge of the system, the joint stock land bank bonds were about 100, were they not?

Mr. MEYER. They were selling at all prices. I do not know what the bonds of particular banks were selling for.

Senator BROOKHART. Nearly all of them were near par. There might have been one or two exceptions. When you want out, they fell way down, did they not?

Mr. MEYER. Perhaps. I do not know.

Senator BROOKHART. Now, I believe Mr. Bestor said to us that they are down to about 70, on the average.

Mr. MEYER. Some have gone up, and some have gone down. That will happen.

Senator BROOKHART. It is impossible to sell bonds at 100, when you can buy them on the market at 70, is it not?

Mr. MEYER. Ordinarily that would be the case, Senator.

Senator BROOKHART. So, this efficient management you talked about, instead of improving the bonds and finding more money for the farmers, has practically sent them into liquidation; is not that the fact?

Mr. MEYER. That is your point of view. It is not mine. The fact is that the bond market from 1927 has gone down for most bonds. I do not consider it altogether a reflection on the banks, and I do not consider it a measure of the worth of the bonds if they are selling so low. A lot of other things are selling low. I consider that farm lands are selling too low. Good farm lands, I think, are absolutely too low. But, Senator, I might just as well say to you, "Senator, here you are, a Senator of the United States. You have been here for a great many years. How is it that you have not done anything to prevent farm land from selling too low?"

Senator BROOKHART. Because I have had too many fellows like you to fight, if you want to know it.

Mr. MEYER. You have not had me to fight at all. You ought to be able to lick me if you are right. I will take the right side, and take on a fight with anybody.

Senator FLETCHER. The depreciation in stocks, bonds, and paper securities from September, 1929, on to January 1, 1931, has been far greater than the depreciation in land values, has it not?

Mr. MEYER. I do not know, Senator. I never heard a comparison made.

Senator FLETCHER. I have seen it estimated that the diminishing values, or the shrinkage——

Mr. MEYER. I am very glad to hear the comparison.

Senator FLETCHER. I have seen it estimated that the shrinkage in securities, stocks, bonds, and the like, has amounted to something like $21,000,000,000 since September, 1929. I do not imagine that the shrinkage in farm values has approached that.

Mr. MEYER. I have confidence in the value of good farms, and I am very hopeful that they will come back and be worth more in the market. I think they will. I have heard that a good many city people, who left the country when the jazz period was on, and went to the city, have gone back and are picking up farms and living on them and going to work on them. I consider that a very favorable tendency. I am very glad to hear, though——

Senator FLETCHER. I have seen a statement somewhere to the effect that something like 4,000,000 workers had left the farms in the last 10 years and gone to the cities and towns. It would take a long time to get them back, I am afraid. That is largely because of the price of farm commodities.

Mr. MEYER. Undoubtedly.

Senator CAREY. Mr. Meyer, is it true that the farm loan banks have been unable to issue bonds on account of the bond market, and for that reason have not had funds to make loans?

Mr. MEYER. Senator, I have been out of the farm loan system since May 10, 1929.

Senator CAREY. I know you have been out, but I thought you might know something about it.

Mr. MEYER. I can not discuss anything that happened in the meantime.

Senator CAREY. I do not believe the banks are making loans.

Mr. MEYER. They sold an issue of $20,000,000 of short maturities not long ago. They can get money in the Federal land banks.

Senator FLETCHER. That issue was oversubscribed, I am told. A few banks got it.

Mr. MEYER. That shows well for the credit of the system, does it not?

Senator FLETCHER. The bonds were purchased by a syndicate of banks.

Mr. MEYER. They were sold by the same group, Senator, I understand, that always handled them.

Senator BROOKHART. While Senator Fletcher's statement, I think, is true, that as compared with the general situation, they have saved several hundred million dollars of interest, yet the real fact is that the interest rate has been manipulated too high all the time, since 1920, has it not, on everything? I am not blaming that part of it at all on the farm loan system, by any means, but the Federal reserve system has something to do with it.

Senator CAREY. Are there any further questions you want to ask, Mr. Meyer?

Senator BROOKHART. I would like to see if he has any answer to that proposition.

Mr. MEYER. What is your proposition, Senator?

Senator BROOKHART. That interest rates are still too high, not only on farmers, but every other legitimate business.

Mr. MEYER. Some interest rates may be high in some industries in some particular territories. That is a very big question, and I do not think my views on interest rates are a subject of importance to this committee, are they?

Senator BROOKHART. This question of interest rates is one of the most important things in the Federal reserve system. You fix the discount rates.

Mr. MEYER. Then you would be interested in the discount rates since I have been in there.

Senator BROOKHART. I am interested in everything in this Federal reserve system. You have not said anything about that yet.

Mr. MEYER. You have not asked me anything.

Senator BROOKHART. You just got to it.

Mr. MEYER. In connection with the Federal reserve system, so far as the discount rates are concerned, the only thing that happened since September 16, when I went in, is that seven banks have reduced their discount rates. Five have not. In any event, I hope it is understood that the Federal Reserve Board in Washington does not fix the discount rates of the banks. The board of directors of the banks fixes its discount rate and submits it for approval to the board. Seven banks submitted reductions, and the reductions were approved by the board in Washington. But interest rates will fluctuate with business. That does not mean that they will always reduce, because they will go up and down both, depending upon conditions. So, on that part of the question, I am able to give you a definite answer.

Senator BROOKHART. I would like to have you make a general statement with respect to the Federal reserve system. That is more important than this other matter.

Mr. MEYER. I do not think I want to discuss the Federal reserve system on such a broad basis. I might talk here for a month. What do you want to know?

Senator BROOKHART. You do not need to talk that long to satisfy me.

Senator FLETCHER. What are the chief functions of the Federal reserve system?

Senator WAGNER. What is your point about wanting to talk a month?

Senator BROOKHART. I do not want to listen that long.

Senator FLETCHER. What are the chief functions of the Federal reserve system?

Mr. MEYER. To supply an elastic currency for the country and to furnish funds for seasonal requirements, as they expand and contract, of the legitimate business of the country. Those are the primary functions. They are charged with some responsibility in examining banks. The board here in Washington has the responsibility of examining the Federal reserve banks.

Senator CAREY. Senator Brookhart made some inquiries regarding the salary of the president of the Omaha Land Bank. I had it looked up. In 1917 Mr. Hogan's salary was $6,000; on May 1, 1919, it was $7,500; from April 1, 1922, to date, it has been $10,000; $9,000 is paid to him as president of the land bank, and $1,000 as president of the intermediate credit bank.

Senator WAGNER. When was the last increase granted, Senator?

Senator CAREY. April, 1922.

Mr. MEYER. I will say this, gentlemen, about the salaries of competent officers of banks. I rather feel that those men who are good have been underpaid. Those men who are not good have been overpaid, but I think you have to pay people what they are worth to get them and keep them. I think a lot of these men have been underpaid. I would say that Mr. Hogan is underpaid now. I have not anything to do with his salary, but that is my opinion.

Senator CAREY. That bank is one of the best banks, from a financial standpoint.

Mr. MEYER. I think it has been run soundly, and is helpful to the community. It is a bank with loans of more than $150,000,000. I think it has the largest amount loaned of any bank in the country. If it is not the largest, it is one of the largest.

I think the principal thing that the Federal land bank system has done is to bring down the interest rates, not only on the money they lend, but on what other people lend. You know insurance companies used to charge much more before the land bank system was in operation. That was one of your ideas, Senator Fletcher, when you organized the system, that it would influence the rates of other lenders, as well as what the system would actually put out.

Senator FLETCHER. Certainly.

Mr. MEYER. I think it has been wonderfully effective in that way.

Senator FLETCHER. Yes. It has had the effect also, perhaps, of lowering commercial rates to some extent.

Mr. MEYER. It eliminated many of those big commissions that used to be charged on farm mortgages. That was one of the things you had in mind when you organized the system. I think it has been very effective in that way.

Senator FLETCHER. Here is a statement in the paper headed, Federal Reserve Partly Blamed for Severity of Slump—Adolph C. Miller Tells Senate Group Some Responsibility for Speculative Excesses Rests on System. Do you agree to that?

Mr. MEYER. No; I do not agree to that, and I do not disagree. I do not intend to criticize the operations of my predecessors.

Senator FLETCHER. No; but with respect to the system——

Mr. MEYER. How can I pass opinions on the conduct of the system before I went into it?

Senator FLETCHER. I am talking about the system now.

Mr. MEYER. Is it now?

Senator FLETCHER. Is it within its power to affect this speculative practice, for instance, on the stock exchange and elsewhere? Is it within its power to affect brokers' loans, and that sort of thing?

Mr. MEYER. There is not any situation at the moment of importance which the board is considering in relation to such matters, and there does not seem to be any immediate likelihood of any, so I have been thinking about other things a little more. I suppose bad management in the system can do a lot of harm in a variety of directions. Wise management can be very helpful in many directions. I do not care to go into the history of the Federal reserve system. I have testified occasionally before congressional committees in the past. I suggested at one time that the Federal reserve act be amended, way back in 1923, to make certain kinds of agricultural paper eligible for nine months, and that amendment was adopted. I thought it was sound and a liberalization of the law in the interest of agriculture.

Senator FLETCHER. I agree with that, but what I am trying to get at is whether or not, in your view, the Federal reserve system can have any influence or any power to prevent this wild orgy of speculation and collapse?

Mr. MEYER. You know, Senator, that the Federal Reserve Board issued a warning, and they did a lot of things they thought would be effective in stopping the wild orgy, but it went on for quite a while, and the country certainly was very speculative. It was not only in stocks, as you know. It was in real estate also right here in Washington, in New York, and elsewhere; and in Florida, your own State, they certainly speculated in real estate. Do you think the Federal reserve system could have controlled that at that time, right in your own State? A sort of mania seized people about buying land in Florida. They paid crazy prices, and many of them lost their money. They had a tulip craze in Holland 200 or 300 years ago. I do not know whether the Federal reserve system, if they had a tulip craze, could always stop it. We had a very speculative state of mind here in this country. I think they endeavored, to the best of their ability, to warn people, but sometimes people do not want to be warned. You remember that there was considerable propaganda in behalf of a great new era in economics. No old rules were any good any more. I could not tell you what they could have done that they did not do; and, anyway, if I could I would not.

Senator FLETCHER. I am not so much concerned about what they have done, but I do feel that it is of considerable interest to know what they may be able to do in the future to prevent such a collapse as we have had.

Mr. MEYER. They only happen once in so often, Senator.

Senator FLETCHER. They can not interfere with people who want to speculate in lands and buy lands as they would buy hats and shoes, and that sort of thing. You can not control that. I am speaking more particularly about this tremendous speculation or gambling, you might call it—it is not exactly gambling, because the speculator did not have a gambler's chance. He stood to lose.

Mr. MEYER. Do you think anybody could have done anything else but lose in Florida lands at the top of the boom there?

Senator FLETCHER. Eventually, the last holders had to lose. It boomed a mild speculation. I think in some instances they could not escape a loss, but a good many of them made a lot of money, so far as that is concerned.

Mr. MEYER. Yes; some of them did.

Senator FLETCHER. I am not speaking with reference to Florida lands. That is a piker proposition compared to what took place in New York.

Mr. MEYER. It ran into hundreds of millions of dollars. It may look small to you, but it looks like a lot to me.

Senator FLETCHER. There was a loss of $21,000,000,000 on Wall Street.

Senator BROOKHART. In August, 1929, it ran $300,000,000 a day.

Mr. MEYER. Of course, a lot of it was just paper. It did not exist, and never did. It was just figures.

Senator BROOKHART. So far as I am concerned, I do not blame the Federal Reserve Board so much for that condition, but how about the Federal reserve law? Does it not encourage that situation?

Mr. MEYER. The law, Senator, is being considered very thoroughly by Senator Glass's committee with a view to improving it in some ways, after careful hearings and a great deal of study. They hope to be able to find methods to improve the law.

Senator BROOKHART. Senator Glass offered an amendment to the tariff bill to levy a tax of 5 per cent on all those sales on the stock exchange where they resold in 60 days.

Mr. MEYER. Yes.

Senator BROOKHART. What do you think about that?

Mr. MEYER. Well, if Senator Glass asks my opinion when I go before his committee, I will have to study it and find out whether or not it would be effective. I do not know whether it would or not. I have not studied it. He has not asked me.

Senator BROOKHART. You have not any opinion unless Senator Glass asks you?

Mr. MEYER. I have not studied the question, Senator. You can pass a law, and sometimes it works in the way it was intended, and sometimes it does not.

Senator BROOKHART. Is not that true of the Federal reserve law?

Mr. MEYER. It might be true of any law.

Senator BROOKHART. I am not asking about any law. I am just asking about one. Isn't that true of the Federal reserve act itself? Did it not work differently from the way its authors expected?

Mr. MEYER. I suppose there is not any law that will work out exactly as its proponents plan and expect, over a long period of time, because the law is fixed, while conditions change, and the effects of the conditions necessarily change.

Senator BROOKHART. The expectations of the authors of this law, and of President Wilson and all, were that it would stop speculation.

Mr. MEYER. Yes; not stop it, but——

Senator BROOKHART. Reduce it.

Mr. MEYER. Well, they hoped that the Federal reserve funds would not be used for speculative purposes. That is in the law.

Senator BROOKHART. President Wilson, in his message, said:

> We must have a currency, not rigid as now, but readily, elastically responsive to sound credit, the expanding and contracting credits of every-day transactions, the normal ebb and flow of personal and corporate dealings. Our banking laws must mobilize reserves; must not permit the concentration anywhere in a few hands of the monetary resources of the country or their use for speculative purposes in such volume as to hinder or impede or stand in the way of other more legitimate, more fruitful uses.

Mr. MEYER. Do you agree with that, Senator?

Senator BROOKHART. I do.

Mr. MEYER. So do I.

Senator BROOKHART. But did the law bring that about?

Mr. MEYER. Of course, we have had a lot of conditions since the words of President Wilson were written. We have had a war, and upheavals, and all kinds of things that neither he nor anyone else at that time could have anticipated. The war has had a great deal to do with the abnormal conditions that have prevailed in the last 10 years. We are not through with the effects of that war.

Senator BROOKHART. So far as this speculation is concerned, the control of credit had a great deal more to do with it than all the wars and the other conditions, did it not?

Mr. MEYER. I do not know whether that is so, or not. Do you feel that the Federal Reserve Board did the best it could to control the speculation?

Senator BROOKHART. I have taken the position that they had no power to do much, but the law promotes speculations, and since we are on that, we might as well discuss it. I expected to ask those questions in a systematic examination, but these were Senator Glass's words when he presented the bill to the House:

> The whole fight of the great bankers is to drive us from our firm resolve to break down the artificial connection between the banking business of this country

and the stock speculative operations at the money centers. The Monetary Commission, with more discretion than courage, absolutely evaded the problem; but the Banking and Currency Committee of the House has gone to the very root of this gigantic evil and in this bill proposes to cut the cancer out. Under existing law we have permitted banks to pyramid credit upon credit and to call these credits reserves. It is a misnomer; they are not reserves. And when financial troubles come and the country banks call for their money with which to pay their creditors they find it all invested in stock-gambling operations. There is suspension of payment and the whole system breaks down under the strain, causing widespread confusion and almost inconceivable damage. (Congressional Record, vol. 50, 63d Cong., 1st sess., p. 4648.)

Again, he says:

The avowed purpose of this bill is to cure this evil; to withdraw the reserve funds of the country from the congested money centers and to make them readily available for business uses in the various sections of the country to which they belong. This we propose to do cautiously, without any shock to the existing arrangement, graduating the operation to prevalent conditions and extending it over a period of 36 months. This affords ample time to the reserve and central reserve city banks to adjust themselves to the reserve qequirements of the new system. Out of abundant precaution we have actually given them a longer time than the best practical bankers of the country have said was needed. But, Mr. Chairman, the plaint of these gentlemen is not as to time, but as to fact. They do not want existing arrangements disturbed; they desire to perpetuate a fictitious, unscientific system, sanctioned by law, but condemned by experience and bitterly offensive to the American people—a system which everbyody knows encourages and promotes the worst description of stock gambling. The real opposition to this bill is not as to Government control, upon which we shall never yield; it is not as to the capital subscription required, which is precisely that of the Aldrich scheme unanimously indorsed by the American Bankers' Association; it is not as to the 5 per cent dividend allowed member banks, the exact limit prescribed in the Aldrich bill; it is not as to compulsory membership, which was provided in another way in the Aldrich scheme; it is not as to the bond-refunding proposition, infinitely simpler and less expensive than the Aldrich device. It is none of these things, Mr. Chairman, that vexes the big bankers It is a loss of profits derived from a system which makes them the legal custodians of all the reserve funds of the country, $240,000,000 of which funds on the 24th day of November, 1912, they had put into the maelstrom of Wall Street stock operations. (Cong. Rec., vol. 50, 63d Cong., 1st sess., p 4648.)

Two hundred and forty million dollars was enough at that time to cause Senator Glass to denounce the banking system as a gigantic gambling scheme, and call it a cancer that must be cut out. Then the law was passed, and last year those brokers' loans went to more than seven thousand millions under this system. So it did not work out the way the Senator expected it, did it?

Mr. Meyer. The business of the country, of course, is generally larger than it was in 1912, but I think his figure of $240,000,000 refers to the balances of interior banks carried in New York.

Senator Brookhart. Perhaps it does, because I found that there were $766,000,000 of brokers' loans about that time.

Mr. Meyer. Yes. You see, that would not agree with the $240,000,000 figure, so that I think, when you talk about seven thousand millions, it is not comparable with the $240,000,000, but with some other figure. That $7,000,000,000 was, in fact, an inflated amount.

Senator Brookhart. The $240,000,000 even impressed Senator Glass as an enormous gambling fund. In fact, I think it was about $766,000,000 at that time.

Mr. Meyer. I think you are probably right, Senator. I do not know what the figure was.

Senator Brookhart. But $766,000,000 is only about one-ninth of what it was last year.

Mr. MEYER. In 1929 it reached an abnormal amount—did it not?

Senator BROOKHART. Yes; but here was a law passed to stop that sort of thing, to cut the cancer out, and it grew to be nine times as big as when it was cut out. What operation do you suggest in the future?

Mr. MEYER. I do not know that I care to answer that question, Mr. Chairman.

Senator BROOKHART. Between now and the time of our next meeting, I would like to have you think about that, because you are going in at the head of a system which is designed to stop this identical thing, which I think is the great cause of our farm troubles.

Mr. MEYER. You have some ideas on the subject, have you not, Senator?

Senator BROOKHART. I have.

Mr. MEYER. Suppose I agreed with all your ideas, and you had great confidence in my ability to carry them out.

Senator BROOKHART. I would vote for your confirmation.

Mr. MEYER. Would you want me to express those views publicly, and have all these enemies of yours use their influence to prevent my being confirmed?

Senator BROOKHART. I certainly would. If I could see you really fighting this group of gamblers, then I would be for you and the country would be for you, but you might not be confirmed.

Mr. MEYER. There you are.

Senator CAREY. Can this committee get together again this afternoon?

Senator BROOKHART. I could not. I am interested in a matter over in the Senate this afternoon.

Senator CAREY. Do you suppose you will be there all the time?

Senator BROOKHART. Nobody could tell exactly.

Senator WAGNER. May I suggest this: Can we not resume the hearing at some room in the Capitol? That would make it convenient, if we are called to the floor, to go right down. I think that would be better.

Senator CAREY. I think I can arrange with Senator Reed to get the use of the room of the Committee on Military Affairs.

Senator BROOKHART. I would prefer to have it go over until Monday, because it is pretty hard to have your attention on two things at once.

Senator GOLDSBOROUGH. We are not going to get very far if we are going to sit only two hours a day.

Senator CAREY. I would like to get through with this.

Senator BROOKHART. It will be some time before we get through.

Senator GOLDSBOROUGH. The longer hours we sit, the sooner we will get through.

Senator BROOKHART. That is one trouble. All these investigations have been jammed through——

Mr. MEYER. I want to raise the question of the propriety of an examination into my views as to the administration of the Federal reserve system.

Senator BROOKHART. That is the most material thing in connection with this question.

Mr. MEYER. It is like asking a man who is up for confirmation for the position of judge to give his opinion on all the cases that are going to come before him, it seems to me.

Senator BROOKHART. We even have a right to ask a judge about his opinions, so far as that is concerned.

Mr. MEYER. I am not afraid to express my opinions, but I just raise the question of the propriety of that line of inquiry.

Senator WAGNER. Senator Brookhart, do you not think we would be exceeding the authority given to us by the committee in this inquiry if we went into the whole question of the Federal reserve system, an investigation of which is being conducted by Senator Glass's committee? I think we would be going way beyond the function of this committee.

Senator BROOKHART. Here is the governor of the Federal Reserve system. His ideas and his action in that system are the thing we are inquiring about. That is the gist of this whole inquiry.

Senator WAGNER. You mean that you want to know, how Mr. Meyer would decide every supposititious question you may raise?

Senator BROOKHART. Nothing of the kind; but I want to know about these policies. Of course, I also have a lot of questions to ask about what he has already presented.

Senator WAGNER. I think we ought to go ahead. I do not think it is fair that this investigation be delayed any longer, because it has already been delayed so long.

Senator BROOKHART. I have not delayed it up to date. He has taken practically all the two days we have had.

Senator WAGNER. Speaking for myself, so far as I am concerned, you shall have every opportunity to investigate, except that we ought not to go too far into extraneous matters, and, in justice to everybody, we ought to proceed with the investigation.

Senator BROOKHART. That is all agreeable to me.

Senator WAGNER. Why can we not meet over in the Capitol?

Senator BROOKHART. I am interested in some matters on the floor of the Senate this afternoon with Senator Howell, and I promised to be with him. I want to do it.

Senator CAREY. Are you interested except getting his bill up.

Senator BROOKHART. Oh, yes. I am interested in the discussion of the whole proposition.

Senator FLETCHER. Monday morning I have three committee meetings at 10 o'clock.

Senator WAGNER. I think the country is to be considered in a matter of this kind. This is a very important nomination. If we are going to take just an hour or two every day, and continue for a month, we know very well that this nomination can not come up for consideration in the Senate. I think that would be unfair.

Senator BROOKHART. I think we can close the hearing in plenty of time for that. I do not apprehend any trouble on that score at all.

Senator WAGNER. Can you not give us some idea how long you propose to take?

Senator BROOKHART. It is a little like a lawsuit. You do not know exactly. Several people have asked me to be heard. Some came here and were ready and had to go away again, and will come back. I can not give any accurate idea at this time. I think perhaps we can get through with it next week, but it might take longer.

Senator CAREY. Would you rather meet in the morning or afternoon?

Senator WAGNER. We can not meet Monday morning.

Senator BROOKHART. I can meet Monday morning, so far as I am concerned, and probably in the afternoon.

Senator WAGNER. I do hope, Mr. Chairman, however, that we are going to confine ourselves to the matter that is before us for consideration. Sooner or later I shall ask the committee's expression on that point.

Senator BROOKHART. What have we done that is not material, so far?

Senator WAGNER. You expressed your purpose to go into the whole Federal reserve system, and its operations, and to inquire what Mr. Meyer would do under certain hypothetical circumstances and conditions.

Senator BROOKHART. Does the Senator claim that that is not material to this matter, where he is the governing power in that system?

Senator WAGNER. On the basis of hypothetical questions?

Senator BROOKHART. No; not on hypothetical questions. I do not think I will ask any. I have not asked any yet. I have asked actual facts.

Senator WAGNER. You are the last man I want to quarrel with: I may stand alone, but I want to confine it to the subject matter that is before us, with considerable liberality, nevertheless.

Senator BROOKHART. That is what I want to do exactly, but I want to go into the subject matter.

Senator WAGNER. That is not your expressed purpose.

Senator BROOKHART. I think the Senator is misconstruing what I said.

Senator CAREY. It is rather difficult to draw the line. We are determining Mr. Meyer's fitness for this position, and I confess it is rather difficult to say where the line should be drawn.

Senator WAGNER. I appreciate that.

Senator CAREY. I think the committee had better go into executive session and determine it.

Senator WAGNER. I think that is true.

Mr. MEYER. I just want to say that while I want to be available at all times to the committee, and answer any questions that are pertinent and proper, I do not consider that the proposition to put me on record, in the consideration of my confirmation, as to what my views would be under certain hypothetical circumstances is proper, any more than it would be proper to examine a judge as to his opinions on the cases in which he is going to act. I want to say—and I hope you will understand it—that, with all the respect I have for this committee and the members of it, and their desire to perform a useful public service, and in consideration of my desire to perform a useful public service, if it comes to the question of prostituting what I consider the dignity of the position I am temporarily holding, by committing myself on policies with respect to situations that may arise and in advance of consideration of them by the board, I would a great deal rather forfeit the position than respond to an inquiry which I feel is fundamentally wrong in principle. On that point I want to be very definite, because there is a price that I can not pay, and the price is the lowering of the dignity of the office that I hold.

Senator BROOKHART. Mr. Chairman, there is not any question of dignity in this matter. The United States Senate has the right to decide what questions it will ask, so far as that is concerned. I do not intend to ask anything outside the facts. The questions I have asked so far on this Federal reserve system have been with reference to historical facts in every particular. I do not care anything about theories and hypotheses, or anything of that kind, but I do want to go into these facts.

Senator CAREY. Mr. Meyer, I do not know if you heard the statement I made a few minutes ago. I stated that it is rather difficult to know just how far we should go in this inquiry. There seems to be a difference of opinion as to the line of questioning. On any question that may be asked where there is a question as to it bearing on this hearing, I think the committee should pass upon it and we will go into executive session to decide the matter if necessary. I want to make this hearing as brief as possible, and not get in discussions of subjects that have no bearing on the case.

Mr. MEYER. I want to cooperate with the committee in every way I can, properly, according to my convictions, but I do not feel that I should respond to an inquiry which, in my opinion, would lower the dignity of the office if I were to answer it, whether the answer was of a kind that met the hearty approval of the Senator from Iowa, or not. That is not the question. There are certain lines of questioning that I will not reply to, and they have to do with how I will conduct myself in office if I am confirmed.

I have been here in public office for the best part of the last 13 years. The Senate of the United States, for the most part, knows my record and knows me. It is a question of confidence in a man for a place. You can not do much more than express either confidence or lack of confidence. I will not declare myself on questions of policy to be decided in the future by the board, of which I am a member temporarily, and will be a member if confirmed. I want that to be very definite and clear.

Senator CAREY. I will say, for one, that I do not feel that any man should be committed to state what he might do in every conceivable case that might come up in the future.

Mr. MEYER. I hope, Mr. Chairman, you will feel that I want to comply, in every reasonable way, with proper requests for answers on a proper matter, and I will stay with you as long as you want along that line, but on the other line, I can not make any concession from principle.

Senator WAGNER. Mr. Chairman, I may draw a perfect analogy to this situation. What would the country think of the Judiciary Committee, where a nomination to the United States Supreme Court was pending, if, in addition to inquiring into the candidate's legal acumen and character, it began to question him on a hypothetical case involving, for instance, the public utilities or some other subject that might come before that judge, and asked him what his decision would be? It would be resented by the country as a reprehensible thing to do.

Senator CAREY. I think it would be unfair.

Senator WAGNER. This is an even more delicate situation. I do not think there is any instrument in our whole economic structure so delicate and so sensitive as the banking system. To ask, as the Senator suggests, that Mr. Meyer be ready to give his opinion upon a suppositious case, may seriously affect the whole banking structure of the country. I think it would be dangerous ground for us to trespass upon.

Senator BROOKHART. With respect to the matter of a judge, we have just inquired into Judge Parker and rejected him because of certain things that we though he would do.

Senator CAREY. On account of decisions he had made in the past.

Senator WAGNER. If you remember, I made a speech upon that question, which at least I thought was a very good speech.

Senator BROOKHART. The Senator always makes a good speech.

Senator WAGNER. Thank you. I made a speech on that subject in which I reviewed his purpose and his attitude upon legal questions. These had a bearing on his fitness for the high office. Of course, you are at liberty to do that with Mr. Meyer.

Senator BROOKHART. I am sure I have not asked a single question of the character the Senator has just suggested of Mr. Meyer. I have asked about facts and policies, and I am entitled to know about them.

Senator WAGNER. Perhaps you did not intend to convey the impression that you proposed to ask him how he would operate as a member of the Federal reserve system under certain circumstances.

Senator BROOKHART. I am going to ask him what things ought to be done under the facts as I know them to exist, and as he will admit them to exist.

Senator WAGNER. We must, in this case, have some consideration for the country. To-day we are in a situation where we ought not to treat lightly the effect such questions might have on our economic structure.

Senator BROOKHART. If this economic structure of ours is so unsound——

Senator WAGNER. I think it is sound.

Senator BROOKHART. If it is so unsound and so delicate that it will not bear the light of day, it is time something is brought to light.

Senator WAGNER. I think our economic order is essentially right, and sound, and fundamentally unimpaired.

Senator BROOKHART. Then there is no fear of any investigation of it.

Mr. MEYER. You indicated to my mind, Senator, that you were going to ask questions as to what I would do under certain conditions, and what my ideas about policies would be. That is the reason that led me to make the statement I made. If you will keep away from questions of that kind, we will not have any trouble.

Senator WAGNER. I think we shall get along very well, Senator.

Senator CAREY. We will stand adjourned until Monday afternoon at 2 o'clock.

(Whereupon, at 12.10 o'clock, p. m., adjournment was taken until Monday, February 2, 1931, at 2 o'clock p. m.)

# NOMINATION OF EUGENE MEYER TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

**MONDAY, FEBRUARY 2, 1931**

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY,
*Washington, D. C.*

The subcommittee met, pursuant to adjournment of Saturday, January 31, 1931, at 2 o'clock p. m., in the committee room of the Senate Committee on Military Affairs, Capitol Building, Senator Robert D. Carey presiding.

Present: Senators Carey (chairman of the subcommittee), Goldsborough, Brookhart, Wagner, and Fletcher.

Senator CAREY. The committee will please come to order. Do you want to question Mr. Meyer further, Senator Brookhart?

Senator BROOKHART. Yes.

## TESTIMONY OF EUGENE MEYER, GOVERNOR OF THE FEDERAL RESERVE BOARD—Resumed

Senator BROOKHART. Mr. Meyer, you state that when you went into the investment banking business—or was it the regular banking business in 1901?

Mr. MEYER. I started business in a small way with a view to developing into the investment banking business, naturally very small in the beginning, but always having that in mind and working in that direction.

Senator BROOKHART. Where did you start in 1901?

Mr. MEYER. At 25 Broad Street.

Senator BROOKHART. Then you were in foreign exchange?

Mr. MEYER. No.

Senator BROOKHART. You bought and sold foreign exchange?

Mr. MEYER. No.

Senator BROOKHART. You mentioned something about foreign exchange. What was that?

Mr. MEYER. I mentioned being in my father's firm, which was a firm dealing in exchange involving import and export business and letters of credit for financing imports and exports. That was during my first years in a clerical capacity.

Senator BROOKHART. That was not an independent business?

Mr. MEYER. I was just a clerk.

Senator BROOKHART. When did you start in this independent investment business?

Mr. MEYER. In 1901.

Senator BROOKHART. That is when you consider that you began the investment banking?

Mr. MEYER. I tried to.

Senator BROOKHART. What is the nature of this investment banking business?

Mr. MEYER. What do you mean? Investment banking is the placing of securities with clients, dealing in them, buying and selling them for clients, or to and from them, depending on what kind of business you are doing.

Senator BROOKHART. On a commission?

Mr. MEYER. Sometimes, and sometimes as a dealer. When you buy and sell to and from clients you do not get a commission.

Senator BROOKHART. Do you buy for the investors outright and then sell?

Mr. MEYER: Sometimes.

Senator BROOKHART. What was the nature of the investments that you handled?

Mr. MEYER. I can not remember 30 years back.

Senator BROOKHART. It was 30 years ago that you began?

Mr. MEYER. Twenty-nine years ago.

Senator BROOKHART. When did you cease this business?

Mr. MEYER. In 1917. The firm was dissolved.

Senator BROOKHART. Has it been revived in any way since?

Mr. MEYER. No.

Senator BROOKHART. Has it done any of that class of business since 1917?

Mr. MEYER. No.

Senator BROOKHART. That is when you went into the public service?

Mr. MEYER. Yes.

Senator BROOKHART. During the last few years, say five years, what was the nature of the securities that your firm handled?

Mr. MEYER. I did not have any firm, Senator.

Senator BROOKHART. I mean during the last five years of its existence.

Mr. MEYER. I had no firm; my firm was dissolved in 1917.

Senator BROOKHART. All right. I am inquiring about the period from 1912 to 1917.

Mr. MEYER. Mostly industrial securities and mining securities. I was interested in copper mining—in industrial and mining securities.

Senator BROOKHART. Any railroads?

Mr. MEYER. I can not remember any from 1912 to 1917.

Senator BROOKHART. Any foreign securities?

Mr. MEYER. Foreign bonds and stocks?

Senator BROOKHART. Yes.

Mr. MEYER. No; nothing that I can remember. It was not customary in the period from 1912 to 1917 for many people over here to be dealing in foreign securities. The Europeans were large buyers of American securities, but, generally speaking, the Americans especially from 1914 to 1917 were not buying European securities, except occasionally.

Senator BROOKHART. Did you sell American securities in foreign markets then?

Mr. MEYER. Sometimes to firms or trust companies that wanted them, and sometimes in foreign markets where American securities were listed and quoted.

Senator BROOKHART. Where was your office during the last five years of its operation?

Mr. MEYER. In the Bankers' Trust Co. Building at 14 Wall Street, New York City.

Senator BROOKHART. Do you still maintain that office at the same place?

Mr. MEYER. No. I have a few rooms there. Since the last expiration of the lease I have retained a few rooms where my books are kept and where other books are kept of accounts for which I am responsible, like estates and things of that kind.

Senator BROOKHART. J. P. Morgan & Co. are the biggest firm dealing in securities, are they not?

Mr. MEYER. The biggest what?

Senator BROOKHART. Firm?

Mr. MEYER. I do not know, Senator. They are one of the leading firms. Whether their totals are larger than others I could not say.

Senator BROOKHART. They are one of the very largest?

Mr. MEYER. Yes.

Senator BROOKHART. Did you do business with them?

Mr. MEYER. From 1912 to 1917?

Senator BROOKHART. Whenever you were doing it, say, the last five years?

Mr. MEYER. No.

Senator BROOKHART. You never handled any of their securities?

Mr. MEYER. None.

Senator BROOKHART. Kuhn, Loeb & Co.?

Mr. MEYER. What about them, Senator?

Senator BROOKHART. Did you handle any of their securities?

Mr. MEYER. No.

Senator BROOKHART. You are on friendly terms with both of those companies, are you not?

Mr. MEYER. I am not unfriendly. I am not on unfriendly terms with anybody, Senator?

Senator BROOKHART. Dillon, Reed & Co.; that is another of the large firms, is it not?

Mr. MEYER. Yes.

Senator BROOKHART. Did you handle securities for them?

Mr. MEYER. No.

Senator BROOKHART. And you are on friendly terms with them?

Mr. MEYER. Well, I would say that I am not unfriendly. I do not see any of the people in that firm very often. I do not believe I know anybody but Mr. Dillon. I have probably seen him five times in the last ten years. Occasionally I have met him accidentally. I have not any business relations with any of those firms.

Senator BROOKHART. Did you never handle any securities for them in any way?

Mr. MEYER. I would not say never.

Senator BROOKHART. Did you ever handle any for any of the three firms that I have inquired about, J. P. Morgan & Co., Kuhn, Loeb & Co., and Dillon, Reed & Co.?

Mr. MEYER. Yes.

Senator BROOKHART. You have for all of them?

Mr. MEYER. No.

Senator BROOKHART. The only one was Dillon, Reed & Co.?

Mr. MEYER. I never did any business with Dillon, Reed & Co., as far as I can remember, in the way of handling securities for them. I assume that you are talking about bonds.

Senator BROOKHART. I am talking about any character of business that your firm might have had with them.

Mr. MEYER. When you go back over a long period of years I can not remember. I can not remember ever having done any business with Dillon, Reed & Co.

Senator BROOKHART. Or for them in any way?

Mr. MEYER. Not so far as I can remember.

Senator BROOKHART. The Bankers' Trust Co? How about that company?

Mr. MEYER. Did I ever do business with them?

Senator BROOKHART. Yes.

Mr. MEYER. Not that I can remember.

Senator BROOKHART. Would you remember it if you did?

Mr. MEYER. Yes; I think so.

Senator BROOKHART. The Central Hanover Bank & Trust Co?

Mr. MEYER. I do not remember ever having done any business for that institution.

Senator BROOKHART. And the Chase National Bank?

Mr. MEYER. I do not remember doing any business with them.

Senator BROOKHART. The First National Bank?

Mr. MEYER. I did not have any business with any of those institutions that I can remember. Do you mean from 1912 to 1917, or in the last five years?

Senator BROOKHART. I inquired particularly about the last five years.

Mr. MEYER. I was not doing security business for people in the last five years.

Senator BROOKHART. But it was the last five years when you were in the security business.

Mr. MEYER. Oh, from 1912 to 1917.

Senator BROOKHART. Yes.

Mr. MEYER. I do not remember any particular business. If when I was in business any of those institutions would ring me up and ask me to do something, I probably would do it, but I had no particular relation with them and did not act as their agent or anything of that kind.

Senator BROOKHART. I do not mean acting exclusively as their agent or anything of that kind. I mean did you handle business that they were promoting or managing?

Mr. MEYER. Between 1912 and 1917?

Senator BROOKHART. Or at any time.

Mr. MEYER. I am trying to remember it and get it the way that you want it during the period referred to. Now that I think of it, I believe I handled some business in 1916 or 1917 for Kuhn, Loeb & Co., in connection with an issue which they made or were acting in connection with or which they asked me to undertake. I think it was to place some shares of the Royal Dutch Petroleum Co.

As I remember it, that was in the fall of 1916. Outside of that I can not think of anything. I do not think that in that period I handled any business for J. P. Morgan & Co. in any way, shape, or manner. I might have bought something from them or sold something to them. I was not acting for them. I am sure that I had no business relations with Dillon, Reed & Co.

Senator BROOKHART. The name of your firm was Lazard Freres & Co., was it not?

Mr. MEYER. You mean my father's firm. There is no "and company." My father retired from business in 1901 and was out of business thereafter. He died some years ago.

Senator BROOKHART. That firm continues up to date?

Mr. MEYER. It does. That is the time—1901—that I got out of that business myself.

Senator BROOKHART. Do you know Henry Evans?

Mr. MEYER. Henry Evans has been dead for quite a few years.

Senator BROOKHART. When did he die?

Mr. MEYER. I could not tell you the year offhand. It has been several years. It must have been at least five or six years.

Senator BROOKHART. Were you ever on any board of directors with him?

Mr. MEYER. I was on the board of the Fidelity-Phoenix Fire Insurance Co.

Senator BROOKHART. How long were you on that board?

Mr. MEYER. I was on that board from the time the company was organized until I came down here. I resigned shortly after I came to Washington.

Senator BROOKHART. You are not on the board now?

Mr. MEYER. No. As I remember it, that company was organized in 1905 or 1906, and I was a director until 1917 or the spring of 1918; I have forgotten just when I resigned.

Senator BROOKHART. Do you know George Trowbridge Hollister?

Mr. MEYER. He was a friend of Henry Evans. I do not remember whether he was on that board or not. I have not seen him in ten or fifteen years.

Senator BROOKHART. Were you on a board with him?

Mr. MEYER. I think I was at that time, if he was on the board of the Fidelity-Phoenix. I do not remember.

Senator BROOKHART. Do you know George D. Mackay?

Mr. MEYER. I used to know him. I do not know whether he was on that board or not, but I knew him as a neighbor, anyway. He lived near me up in Westchester County.

Senator BROOKHART. Were you on any other board with Mr. Mackay?

Mr. MEYER. I do not think so. Was he a director of the Fidelity-Phoenix?

Senator BROOKHART. I think not.

Mr. MEYER. Then I was not on any board with him, as far as I can remember.

Senator BROOKHART. You think you would remember if you were on that board with him?

Mr. MEYER. I think so. I do not remember ever being on a board with him, although I might have been.

Senator BROOKHART. Were you ever on a board with Henry K. Pomroy?

Mr. MEYER. Yes; he was a director of the Fidelity-Phoenix, I think.

Senator BROOKHART. Were you on any other board with him?

Mr. MEYER. Not that I know of.

Senator BROOKHART. George E. Kline?

Mr. MEYER. If I was on any board with him it was on the Fidelity-Phoenix board, because I do not think he could have been on any other board in which I was interested. He was a director of the Fidelity-Phoenix, was he not?

Senator BROOKHART. He seems to have been vice president and director.

Mr. MEYER. Yes; I knew he was an officer. I did not know whether he was a director.

Senator BROOKHART. And Charles Altschul?

Mr. MEYER. Was he a director? He has been dead for several years.

Senator BROOKHART. Edmund C. Converse; do you know him?

Mr. MEYER. Yes; I did know him. He has been dead for 15 years.

Senator BROOKHART. Were you on any board with him?

Mr. MEYER. He was a director of the Fidelity-Phoenix Fire Insurance Co., was he not? I do not know.

Senator BROOKHART. He was also a director of a good many other companies?

Mr. MEYER. Yes? That is all over 13 or 14 years ago.

Senator BROOKHART. Benedict J. Greenhut? Do you remember him?

Mr. MEYER. If he was a director of the Fidelity-Phoenix. I am sure that I do not know whether he was or not. I think he was for a little while.

Senator BROOKHART. And Francis L. Hine?

Mr. MEYER. Yes; he was a director of that company. He died some years ago.

Senator BROOKHART. Were you a director with him or interested with him in any other company?

Mr. MEYER. Not that I know of.

Senator BROOKHART. The American Can Co.?

Mr. MEYER. No; I was not a director of the American Can Co.

Senator BROOKHART. William H. Moore? Do you know him?

Mr. MEYER. Mr. Moore has been dead for many, many years.

Senator BROOKHART. Was he a director with you in any of these companies?

Mr. MEYER. He might have been in the Fidelity-Phoenix. I am sure I do not remember. The directors used to meet once a month, and I have forgotten who they were.

Senator BROOKHART. Dudley Olcott?

Mr. MEYER. If he was a director of the Fidelity-Phoenix. I think he was for a while—for a short time.

Senator BROOKHART. Edgar Palmer?

Mr. MEYER. Yes; he was a director of the company. I remember him.

Senator BROOKHART. Were you a director with him in any other company?

Mr. Meyer. Not that I know of.

Senator Brookhart. John J. Riker?

Mr. Meyer. Yes; he was a director of the Fidelity-Phoenix.

Senator Brookhart. Edward R. Stettinius?

Mr. Meyer. I do not think that Mr. Stettinius was a director of the company at the time I was, if he was at all. But I do not remember.

Senator Brookhart. He must have been.

Mr. Meyer. At the time I was?

Senator Brookhart. Well, I have not the date. I am asking you about that.

Mr. Meyer. No; I do not think he was.

Senator Brookhart. Henry R. Taylor?

Mr. Meyer. Yes; there was a gentleman by the name of Taylor there.

Senator Brookhart. Samuel A. Walsh?

Mr. Meyer. I do not remember. I do not know now who he is. He might have been a director of the Fidelity-Phoenix, but I do not remember him. Maybe he was a director afterwards and not while I was on the board.

Senator Brookhart. Albert H. Wiggin?

Mr. Meyer. Yes, sir; he was a director of the company.

Senator Brookhart. William D. Thornton?

Mr. Meyer. I do not know whether he was ever a director of the Fidelity-Phoenix when I was. He may have been, but I can not remember him as such. I am inclined to think that he was not.

Senator Brookhart. Were you a director with him in some copper company?

Mr. Meyer. Yes; he was a director of the Inspiration Copper Co. down in Arizona. I remember him as such but not in the other company.

Senator Brookhart. He was also a director in the Montana Power Co.?

Mr. Meyer. I never was a director of the Montana Power Co.

Senator Brookhart. Mr. Thornton was?

Mr. Meyer. Mr. Thornton might have been; I do not know.

Senator Brookhart. Joseph W. Allen?

Mr. Meyer. What about him?

Senator Brookhart. Were you a director with him?

Mr. Meyer. He was a director of the Inspiration Copper Co. I think he was the secretary of the company—an officer of the company.

Senator Brookhart. Thomas F. Cole?

Mr. Meyer. Well, he must have been a director. I do not remember. I do not think he attended meetings if he was.

Senator Brookhart. That is the copper company?

Mr. Meyer. The copper company.

Senator Brookhart. William E. Corey?

Mr. Meyer. He was a director of the copper company.

Senator Brookhart. He was president of the United States Steel at one time, was he not?

Mr. Meyer. I think in the beginning for a year or two; not the first president, but the second or third, maybe.

Senator BROOKHART. Were you on any other directorates with him?

Mr. MEYER. Not that I can remember.

Senator BROOKHART. Charles A. Corliss?

Mr. MEYER. I do not remember him. He may have been a director of the copper company. I would not know him if I should see him, but he may have been a director.

Senator BROOKHART. And Philip L. Foster?

Mr. MEYER. Yes; he was a director of the company.

Senator BROOKHART. Is that company still in existence?

Mr. MEYER. I think so. It is operating in a small way, I think.

Senator BROOKHART. Louis D. Ricketts?

Mr. MEYER. Yes; he was a director. He was their chief mining engineer.

Senator BROOKHART. William G. Rockefeller?

Mr. MEYER. He may have been a director of the company. I do not remember. He died some time ago.

Senator BROOKHART. Were you a director with him in any other companies?

Mr. MEYER. No.

Senator BROOKHART. John D. Ryan?

Mr. MEYER. He was a director of the Inspiration Copper Co.

Senator BROOKHART. And Charles H. Sabin?

Mr. MEYER. I think he was a director of the Inspiration Copper Co. I have not been connected with the Inspiration Copper Co. as a director since 1917 or 1918.

Senator BROOKHART. You do not remember the exact date when you quit it?

Mr. MEYER. I think it was in 1917.

Senator BROOKHART. Do you still have holdings in it?

Mr. MEYER. In that company? A small investment.

Senator BROOKHART. James C. Brady?

Mr. MEYER. He has been dead a few years.

Senator BROOKHART. Were you a director with him in any companies?

Mr. MEYER. At one time I was a director with him in an automobile company, the Maxwell Motor Co.

Senator BROOKHART. When was that?

Mr. MEYER. From 1911 to 1916, I think.

Senator BROOKHART. He was a director in the Consolidated Light & Power Co. of Wichita Falls?

Mr. MEYER. I do not know anything about his other directorships.

Senator BROOKHART. And the Consumer Light & Power Co., of Topeka, Kans.?

Mr. MEYER. I do not know.

Senator BROOKHART. And the Edison Electric Light & Heating Co., of Brooklyn?

Mr. MEYER. I can not tell you anything about his other affiliations, Senator.

Senator BROOKHART. Harry Bronner?

Mr. MEYER. He was a director of the Maxwell Motor Co.

Senator BROOKHART. And you were at the same time?

Mr. MEYER. Yes.

Senator BROOKHART. Were there any other companies in which you were a director with him?

Mr. MEYER. I do not think so.

Senator BROOKHART. Is that company still in existence?

Mr. MEYER. It is called the Chrysler Motor Co. now. It has been reorganized.

Senator BROOKHART. Walter F. Flanders?

Mr. MEYER. He has been dead for from 8 to 10 years.

Senator BROOKHART. He was president of that company?

Mr. MEYER. Yes.

Senator BROOKHART. Donald C. Muhleman?

Mr. MEYER. What about him? I do not remember his name.

Senator BROOKHART. He seems to have been a director in the Maxwell Motor Co.

Mr. MEYER. Muhleman?

Senator BROOKHART. Yes.

Mr. MEYER. Not when I was connected with it, so far as I can remember.

Senator BROOKHART. William C. Potter?

Mr. MEYER. He was a director of it.

Senator BROOKHART. C. M. McNeill?

Mr. MEYER. Yes. He has been dead for 8 or 10 years.

Senator BROOKHART. Charles Hayden?

Mr. MEYER. What about him?

Senator BROOKHART. Were you a director with him in any company?

Mr. MEYER. I was a director with Mr. Hayden in the Utah Copper Co. for some years; I think about seven years.

Senator BROOKHART. Is that company still in existence?

Mr. MEYER. Yes.

Senator BROOKHART. Do you still have holdings in it?

Mr. MEYER. No; I have not.

Senator BROOKHART. Mr. Hayden was also a director in the Utah Power & Light Co., was he not?

Mr. MEYER. He may have been. I do not know.

Senator BROOKHART. Spencer Penrose?

Mr. MEYER. He was a director of the Utah Copper Co.; a brother of the late Senator Penrose.

Senator BROOKHART. David A. Crockett?

Mr. MEYER. I can not remember him. I do not remember ever having heard of him. He may have been a director of the Utah Copper Co. I do not think he could have been when I was there, although sometimes they did not all show up at the board meetings.

Senator BROOKHART. How about the Atland Consolidated Mining Co.?

Mr. MEYER. I never heard of it.

Senator BROOKHART. The Western Mining Co.?

Mr. MEYER. No.

Senator BROOKHART. Col. R. Babbett?

Mr. MEYER. Yes; he was counsel, I think. He may have been a director.

Senator BROOKHART. Of the Utah Copper Co.?

Mr. MEYER. I think so.

Senator BROOKHART. Silas W. Eccles?

Mr. MEYER. Well, he may have been a director of the Utah Copper Co. I think he was a technical man, an engineer or a metallurgist.

Senator BROOKHART. Morris Guggenheim?

Mr. MEYER. Yes; he was a director of the Utah Copper Co.

Senator BROOKHART. And Solomon R. Guggenheim?

Mr. MEYER. Yes.

Senator BROOKHART. John Hays Hammond?

Mr. MEYER. I do not remember Mr. Hammond as a director. He may have been, though.

Senator BROOKHART. He seems to have been. William Loeb, jr.?

Mr. MEYER. Mr. Loeb was certainly a director later. Whether he was when I was there or not, I do not know; I have forgotten. I imagine he was the last year or two or a few years while I was there.

Senator BROOKHART. Kenneth K. McLarrin?

Mr. MEYER. I do not remember him. I do not think they had very frequent meetings of the board of directors of that company. I do not believe they met more than once in three months.

Senator BROOKHART. In addition to these companies you have mentioned, were you at any time interested in Chilean nitrates?

Mr. MEYER. I was never really interested in Chilean nitrates. I had an interest in a company which sent an engineering expedition to Chile with a view to exploring the possibilities of that business, and a good deal of money was spent in it. It was based on an option on some property, and the thing was abandoned and written off after conducting some experiments with the treatment of the ore.

Senator BROOKHART. It never was carried out?

Mr. MEYER. No.

Senator BROOKHART. You never had but the one option or the one contract?

Mr. MEYER. I think it was extended but finally abandoned.

Senator BROOKHART. When was it abandoned?

Mr. MEYER. Either in 1920 or 1921. I think it was in 1915 that we sent some engineers and metallurgists down there and then the war came along and interfered with following it through. I think it was abandoned in 1919 or 1920, somewhere along in there.

Senator BROOKHART. Did it furnish any nitrates for the war?

Mr. MEYER. No; it could not; it was never in operation. There never was any plant built.

Senator BROOKHART. You say that you first became interested in agriculture in 1904?

Mr. MEYER. I was talking about it, intellectually and statistically and economically. I said I became convinced that the agricultural situation was important in determining the business of the country.

Senator BROOKHART. You were interested from the standpoint of business rather than from the standpoint of farmers?

Mr. MEYER. I was interested in it from the standpoint of economics, from a scientific standpoint.

Senator BROOKHART. There are two economic views of that situation.

Mr. MEYER. I am only trying to explain to you what I meant by what I said. I meant by that that I began to study it and got very much interested in it.

Senator BROOKHART. There is one class of economists that are interested in getting a cost of production with at least a cooperative margin of profit for the farmers themselves. There is another class interested in getting cheap raw materials for the industries.

Mr. MEYER. The economic interest that I had was in getting information, in getting the facts, having particularly in mind the effect of abnormally large crops which brought low prices, or abnormally small crops with high prices, or fair crops with fair prices. I came to the opinion that the best thing for the farmer was a fair crop with a fair price; that abnormally high prices brought in too much production and broke it down and an abnormally large crop broke the market and was hurtful.

Senator BROOKHART. You found also that the crop production could not be controlled by acreage?

Mr. MEYER. Yes. The yields play an important part. Take, for instance, cotton in the last ten years. The difference in the yields between high and low was quite a factor.

Senator BROOKHART. Conditions of climate during the year affected the average?

Mr. MEYER. I will just give you the figures. Take the crop of last year. There were 44,000,000 acres planted. If you were to take the yield of 1921, which was less than 125 pounds to the acre, according to the official figures, there would have been a yield of 11,000,000 bales. If you were to take the 1926 yields on the same acreage, no less and no more, there would have been 16,500,000 bales on the same acreage. I agree with you, Senator, that too much emphasis may be placed on acreage and not enough on yields.

Senator BROOKHART. Mr. R. B. Mellon, Secretary Mellon's brother, who took a boat for Europe two or three years ago, said, "Great prosperity ahead for the United States." He said that steel orders were larger and prices were higher. He mentioned two or three other big lines and then he said, "Agricultural prices are lower, as they should be."

Mr. MEYER. What year was that?

Senator BROOKHART. That was about three years ago.

Mr. MEYER. Of course, I do not remember the interview, and I do not know why you bring it up with me. I am not responsible for Mr. R. B. Mellon. I would not have agreed with him at the time if it had come to my attention, because I do not think that farm prices three years ago were too high.

Senator BROOKHART. I took it up with Senator Reed at the time, and he said that he was a damned fool for saying it, even if he did believe it. But the trouble is that there are too many who believe it.

Mr. MEYER. I am not a believer in it, and I am not saying this because I am talking to you, Senator, I can assure you. A fair crop at a fair price is what the farmer wants. I do not believe that he benefits by excessively high prices which overstimulate production, bringing in turn excessively low prices.

Senator BROOKHART. The question of getting a price for his products is more a question of long-time marketing, is it not?

Mr. MEYER. I felt that time was a very important factor, especially in the years 1921, 1922, and 1923. I mean this: Orderly marketing is always an important factor, but I had the feeling in 1921, 1922, and 1923 that the time element was the most important factor. I have talked a great deal before committees of Congress and around the country regarding the importance of the time element in orderly marketing, and I think I told you at one of the previous hearings that

I suggested that agricultural paper having a longer maturity than six months be made eligible for discount under certain conditions. That 1921, 1922, 1923, and 1924 period, though, it must be remembered, was influenced by the fluctuating foreign exchanges which changed the time element in the export situation.

Senator BROOKHART. The only remedy that you suggested was this nine months' rediscounting.

Mr. MEYER. No. We had been lending a lot of money to the country banks to meet that situation.

Senator BROOKHART. Do you think that nine months will meet the situation as to agricultural marketing?

Mr. MEYER. The nine months' provision related to paper used to finance the production, carrying or marketing of agricultural products, including paper secured by warehouse receipts and livestock. Eligibility of agricultural paper for rediscount, of course, is not restricted to paper that involves marketing of the finished products. The Federal Reserve banks also take paper from the country banks representing loans for grower credits.

Senator BROOKHART. It is no help to him at all for grower credits:

Mr. MEYER. It is not?

Senator BROOKHART. I mean nine months in a warehouse.

Mr. MEYER. No. Six months' agricultural paper for production purposes is discounted by the Federal Reserve Banks.

Senator BROOKHART. Then he is subject to renew his loan, if he can?

Mr. MEYER. Senator, only a small part of the volume of credit in the country, to the farmers or business men or anybody else, is rediscounted with the Federal Reserve System. The banks are the ones, with about 58,000 million deposits, which finance agricultural and other industries.

Senator BROOKHART. But the country banks are required to follow this quick turnover which the big city banks follow.

Mr. MEYER. I do not think they do because they could not. I mean that there is no quick turnover in the country districts. Of course, you have a certain amount in the Corn Belt. There is more quick turnover in farm cattle and hogs in the Corn Belt than in the Rocky Mountains where they raise breeding cattle.

Senator BROOKHART. You know we raise more cattle in Iowa than are raised in a dozen Rocky Mountain States, including Wyoming.

Mr. MEYER. You mean raise them from birth?

Senator BROOKHART. Yes; something like 2,000,000 and I think 700,000 in Wyoming.

Mr. MEYER. Well, Wyoming is a very big sheep State. They probably run more to sheep.

Senator BROOKHART. I think that we raise more sheep than they do.

Mr. MEYER. That may be true. You have a great State with wonderful soil. You can do most anything.

Senator BROOKHART. Except to get money enough to pay the expense of doing it.

Mr. MEYER. Quite a few people do, Senator. I would not like you to generalize about all of the people of Iowa like that, because really their credit is pretty good. This last year, according to some of the people out there, they feel that they are rather better off than some of their neighboring States.

Senator BROOKHART. I will agree with that, but that does not argue anything.

Mr. MEYER. Everybody has been having a tough time, Senator.

Senator BROOKHART. Since the stock collapse perhaps that is true, except investment companies and those who were on the right side of the market.

Mr. MEYER. Even they have.

Senator FLETCHER. Agriculture is largely a problem of distribution.

Mr. MEYER. It is a very complex problem.

Senator FLETCHER. Is not that the main problem with which the farmer has to contend now?

Mr. MEYER. The cost of distribution is certainly one of the big problems.

Senator FLETCHER. For instance, we have a lot of food products ready for consumption; we have a lot of hungry people; and we can not get the food to the people for some reason or other.

Mr. MEYER. That is correct, Senator.

Senator FLETCHER. I do not know but that the people in Florida, who have not suffered from any drought, are about as badly off as the people who could not produce any crops by reason of the drought. We have produced an enormous crop of fruits and vegetables.

Mr. MEYER. Do you mean the citrus crop this year?

Senator FLETCHER. Yes. But it costs us more to get it to market than it will bring in the markets.

Mr. MEYER. I had understood that they had improved the marketing of the citrus fruit down there; that they had gotten a man who had had experience in California, where they have succeeded pretty well over a long period of years in their cooperative marketing, and that they had organized some of the citrus growers. I have not been there and I do not know personally, but that is what I have heard.

Senator FLETCHER I had a letter this morning from a large grower, and he is going to let his crop drop on the ground and not attempt to move it at all, because he says the prospect of having to pay freight on it would be an additional cost to him. That is a condition that I imagine obtains practically everywhere with respect to agricultural products.

Mr. MEYER. There is a derangement in all kinds of business that is extremely distressing.

Senator FLETCHER. We have plenty of food stuff; we can produce it, but we can not get it to the people that want it.

Mr. MEYER. That is true. I had the idea that the orange growers in your State had succeeded in organizing fairly successfully.

Senator FLETCHER. They have done something in that direction, but it does not seem to help the grower very much if at all; it helps packing houses, but producers do not realize enough to pay fertilizer bills.

Mr. MEYER. I think that problem of cost of distribution is one of the biggest problems. I spent some time talking to various people about it, having in mind that if large terminal markets and refrigerating plants could be built just outside of the cities—not in the congested areas where land is so valuable and where so much capital is involved and where they have such large taxes—that that might be helpful. Of course, you have this market problem here in Washington. I had in mind particularly the shipment of perishables, such as come from your State and neighboring States. If, instead of going into Jersey City and then over the ferry by lighter and into Jefferson Market and Washington Market with large losses from spoilage, they would build large railroad terminals and refrigerating plants and warehouses over on the Jersey flats to take the place of the wholesale city markets, provided they could get the cooperation of the trade, that might be a way to improve conditions. They are building tunnels under the rivers in New York and bridges over the rivers, and a large part of the population is over in Brooklyn and up in the Bronx, anyway. I think the Erie Railroad did build such a plant in Jersey City, but there again it is right in the congested area.

There are many flats back of Hoboken and east of Newark. I talked to some of the railroads about it. It was three or four years ago that I began to think about this problem. One of them was willing to join the others in doing something like that, but one of them, for some reason, did not see it.

I am convinced that with motor-truck transportation, the removal of the terminal markets from the congested areas, where they were located when we had horse-drawn vehicles, with their limited radius, is one of the ways of attacking that problem. Of course, I think that better refrigeration is going to do very much for the perishables, and there is a lot of progress being made in that direction.

Senator FLETCHER. I think there are needed a lot of cooperative associations to manage the marketing needed and then proper selling agencies of their own where they will not be dependent on commission houses.

Mr. MEYER. The city of New York built a big market, which I happened to notice because I pass it on my way to the country when I motor out to my farm, but it is so badly placed for some reason or other that it is not used. It has a big capital investment, but it is not functioning. It was built with the idea of meeting the marketing and distributing problem in the northern part of the city.

That is a very difficult question. You see, you have these commission men who handle the commodities. They are still located to a considerable extent in the places where they were when horse-drawn trucks were used for deliveries to the few retail stores in other parts of Manhattan or Long Island. There they are and there they stay in spite of the development of motor-truck transportation.

Senator FLETCHER. I have had great hopes that this Federal Farm Board would assist largely in solving that problem.

Mr. MEYER. I do not think there is any problem that they ought to think or do more about than that of improving distribution.

Senator FLETCHER. This morning I paid $2.68 express charges on a box of oranges from Florida. I can go down to the market here and buy a box for almost that price. The carrying charges are too great.

Mr. MEYER. I started in ordering oranges direct from Florida, and I found that I could get them just as good and as cheap locally. I got some circulars from one of your growers down there and I ordered a box.

Senator FLETCHER. The carrying charges are an enormous burden; there is no doubt about that, also packing and selling charges. These absorb the proceeds in most cases.

Mr. MEYER. Of course, I come from California and I do not want to say too much about Florida. I like your Florida grapefruit, but I generally eat California oranges.

Senator FLETCHER. You have to eat Florida grapefruit.

Mr. MEYER. Yes. We have figs and dates out there that we think we can beat you on.

Senator CAREY. How about the climate?

Senator FLETCHER. There is nothing that equals the climate of Florida, but that is aside from the question.

Mr. MEYER. I think you have us all on the right point, the distributing costs and the losses. I think refrigeration is going to be an important factor in the next 20 years.

I do not have the figures up to date, but a few years ago when I was interested in looking into this idea of terminal markets and refrigerator plants, I took the trouble to make some inquiries and I found that in some instances the losses on the perishables between the time they left the grower and the time they reached the consumer were around 50 per cent. That is, of course, just a charge on the industry. I think the refrigerating industry is making enormous progress, and it ought to get a great deal of attention from the scientific people and the technicians and the railroads, and I think it is. From all I hear they are building a lot of refrigerator cars. Of course, they have long had the fast fruit express from California, but there is a considerable amount of ice and loss of time in connection with the present system. I think they are going to get a refrigerator car that will be economical.

Senator FLETCHER. I do not mean to give a black eye to the citrus industry. We are trying to find a way to use refrigerator ships to take the fruit abroad and market it in England and generally in Europe. We are also canning grapefruit and oranges.

Mr. MEYER. I have not bought any recently in London or Paris or Berlin because I have not been over there for some time, but I remember that years ago I paid 25 cents in Berlin for an Oregon apple. It was worth it compared to others that could be bought, but it was a good deal. Now they are selling apples on the streets here to help the unemployed and they want 5 cents apiece for them. Of course, 5 cents apiece would make every apple grower rich. I would like to get 2 cents apiece for apples on my farm 30 miles out of New York.

Senator FLETCHER. They are feeding apples to the hogs down here in Virginia. They are doing that when the people in Washington are paying 5 cents apiece for apples.

Mr. MEYER. Senator, we all want to be eating anything we like at any time of the year. Our wives do not care to go to market any more; they like to telephone any hour of the day or night for anything that is needed. We have to pay for that service, and I think that is a part of the problem. I do not like to discuss the domestic part of the problem, though, because I am not supposed to know about it.

Senator FLETCHER. Coming back to the Federal reserve, has the Federal reserve anything to do with that situation? Can they help out?

Mr. MEYER. Of course, Senator, you know what the function of the Federal Reserve system is—to provide an elastic currency, to furnish seasonal credits, etc. At various times in the past thirteen years, I have seen the Federal Reserve go out of their way a little, as far as strict functioning according to the letter of the law was concerned, and interest themselves in problems in a general way. They publish a bulletin which disseminates a good deal of information of a statistical character and which I think may be made more helpful.

I think the district banks, the 12 federal reserve banks, can do a great deal toward influencing the member banks in helpful directions. You would not want the Federal Reserve Board here, however, to tell the banks to instruct their member banks what they should do and undertake to dictate to them, because there is nothing in the law that warrants that. But my feeling is that the desire to be helpful exists in the system and always has according to their lights. I think sometimes they have made mistakes. They admit that sometimes they make mistakes.

To tell you the truth, Senator, having been on the Federal Reserve Board for only four months, I am trying to learn a good deal about the machinery and the technique and get the feeling of the institution. I did not go in there with a lot of pre-determined ideas and policies. Problems come up. They come up from the banks. They are presented to the board. They are discussed by the board. We have economists, statisticians and experts. Maybe the people from the local banks will send somebody up to advise us about the details of problems.

I feel that they can be helpful. I can not say in this or that particular. I know that in the old days of the War Finance we had many people coming to us with problems. We tried to be helpful to them always, and I think very often, and most of the time in fact, we were.

Sometimes it is a valuable thing for people who have problems just to have somebody to go to and talk them over with and get some sound advice. I have confidence in the Federal Reserve System's capacity to function helpfully in the future as it has in the past. I even hope it will do a little better but I do not want to be over confident.

Senator FLETCHER. I have the impression, Mr. Meyer, that one of the causes of that performance on the stock exchange, speculation, and so forth, that went on was partly due to the banks of the country themselves, for a great many of the banks were anxious to make money without pursuing the usual and proper banking functions; and, in order to make money, they attempted to move away from the communities' deposits and reserves, and that sort of thing in order to get the big interests that were being paid on call loans in New York; they took the money out of their communities and focused it in New York because they could get these high rates. Now, I am quite sure that that is true, to some extent, because I know banks in Florida that could not accommodate local business because they had their money up there and were getting as high as 20 per cent at one time on call loans. That was not good banking and it was not a good good thing for the country. Whether the Federal Reserve System can have any influence in preventing that sort of occurrence again through their instructions or advice to member banks, for instance, is something that I would like to know about. Could something like that be done to prevent that situation occurring in the future?

Mr. MEYER. I would hope, Senator, that there would not be a repetition of that particular form of unfortunate experience. I want to say this, though, Senator, and this does not refer particularly to Florida: The speculative fever existed in many other activities outside the securities market. It existed very much in real estate, and I am not speaking exclusively of Florida.

I remember about three years ago coming through one of our largest western cities—and I do not want to mention the name of the city, if you do not mind—and people there told me the space that was being built that year in that city was enough to provide for the normal rate of growth over a period of eight years.

Now, the building activity started up after the war. There was comparatively little building during the war; it was practically forbidden, except for military purposes, or for purposes that contributed to the prosecution of the war. Then some building started up but it stopped again in that panicky period in 1920 and 1921, as the permit and contract statistics show. After 1921 they started out to fill a real need in both houses and offices and industrial plants. The whole plant of the country had been relatively stationary while the years had gone on. There was a great deficiency. Senator Calder's committee that we were talking about at one of these hearings was a committee on housing and reconstruction. Because of the deficiencies in housing, that committee was appointed to look into the matter.

That shows the attitude of the Senate at that time. Then money began to get easier in the spring of 1922. People began to build, and there was the most legitimate kind of building. But they could not fill the deficiency very rapidly, rents went up rapidly and the prices also, including the price of old buildings. The cost of replacing buildings had gone up about 75 per cent—I think it would be fair to say even 100 per cent—during the war, between 1914 and 1921, or 1922.

So you had a great rise in land and real estate values, particularly in the improved properties of the cities and suburbs.

They started in to build and they did it logically in the beginning; but the building business had access to large amounts of money, through the new development of the real estate bond market and the tremendous amount of mortgages placed but, after a while, the thing got on a very speculative basis. Conservative builders withdrew from the business. I think the trouble that developed in this field is a very big part of the present situation.

Senator Brookhart. Let me ask a few questions on that proposition with reference to agriculture's relation to all of this speculation. Agricultural lands reached their peak in 1920, did they not?

Mr. Meyer. I do not want to say from my own knowledge. If you say so, I would be inclined to agree with you, Senator. I do not know whether it was 1918 or 1919 or 1920.

Senator Brookhart. You said the other day that speculation in land was the cause of the trouble.

Mr. Meyer. Not the only cause.

Senator Brookhart. Perhaps Iowa lands have advanced more than the lands of any other State in the Union, except Minnesota and Florida.

Mr. Meyer. I do not remember saying that speculation in land was the trouble. It has been said a great deal by the people, though, and it may have been overemphasized to some extent.

Senator Brookhart. There is a difference in quality of an Iowa farm and your Westchester County farm up in New York State?

Mr. MEYER. I told you there was when you and I met awhile ago.

Senator BROOKHART. Up there where you live they fertilize graveyards to insure resurrection of the soul practically.

Mr. MEYER. A friend of mine told me that if I wanted to plant anything that I should go up in the air and shoot seed into the ground with a shotgun.

Senator BROOKHART. If you were to use fertilizer to a depth of 6 inches and make that much of your soil as good as the top 2 feet of Iowa soil it would cost you about $2,500 an acre to do it, would it not?

Mr. MEYER. Nobody admires Iowa soil more than I do, Senator. I would like to have some of that soil on my farm in Westchester County.

Senator BROOKHART. But you do not know anything about these agricultural economics; you have not studied these ideas out carefully, have you?

Mr. MEYER. I do not pretend to know all about them.

Senator BROOKHART. When the Iowa land reached the top peak of speculation it averaged $224 an acre. That is the highest it ever got.

Mr. MEYER. There were some sales at about $400 or $500.

Senator BROOKHART. But that was only an individual sale once in a while.

Mr. MEYER. I do not know that there was any vast amount of land sold at that price.

Senator BROOKHART. Mr. Meyer, some land sold at four hundred or five hundred dollars an acre, but the general body of the land did not sell at all.

Mr. MEYER. Of course not.

Senator BROOKHART. And in many of the States there was very little, if any, land speculation at any time through North Dakota and most of South Dakota; and it is true that in most all of the States farther east there was very little advance in land. While land started down in 1920 and has been going down ever since, stocks have been going up until 1929, have they not?

Mr. MEYER. I had the impression that from 1910 to 1920 land had advanced considerably in some States; and, while I think the number of transfers of land, for instance, in your State, at high prices—I mean those very high prices which were in some cases reached—has been exaggerated, still I think there were a good many. You know it was in that period that many Iowa farmers who had sold their farms moved to Los Angeles. There is no doubt about that.

Senator BROOKHART. The Iowa farmer up to 1920, until he was 50 or 60 years old, could get enough of a competency to live out in California.

Mr. MEYER. He did it on a rising land market.

Senator BROOKHART. He did it on the rising land because he got his land at $1.25 in the beginning, but beginning in 1920 the tide turned and it has been downward ever since, and I have heard just now of the lowest sales from some foreclosures of joint stock land banks.

Mr. MEYER. I do not know about the foreclosures of the joint stock land banks.

Senator BROOKHART. There has been some of the Milwaukee receivership in northeast Iowa where they sold at $47 an acre.

Mr. MEYER. I do not think that bank loaned in Iowa. The Milwaukee bank loaned in Wisconsin, I think.

Senator BROOKHART. That is an adjoining State to Iowa.

Mr. MEYER. They may have had some loans in Iowa. But I would not know about it now.

Senator BROOKHART. The land generally, not only the land in Iowa, but in Illinois, Indiana, and Ohio and everywhere else, has depreciated in value almost steadily since 1920.

Mr. MEYER. Most too low, I think, for good farms.

Senator BROOKHART. But for nine years of that time stocks and bonds continued to go up, did they not?

Mr. MEYER. Not in 1920.

Senator BROOKHART. From 1920 to 1929.

Mr. MEYER. No; they went up and down, but they went up a good deal in 1928 and 1929.

Senator BROOKHART. I have a chart of those stocks here prepared by Prof. Irvin Fisher. That would be a reliable authority, would it not?

Mr. MEYER. I have not any check on his authority, but I imagine he is trying to get statistics that are accurate.

Senator BROOKHART. He would do that about as well as anybody we have?

Mr. MEYER. I imagine so. There are various indexes.

Senator BROOKHART. Please take a look at this chart and see what happened to stocks from 1920 to 1930. It shows a tremendous rise, does it not?

Mr. MEYER. Yes. It is a rise that has been going on, with interruptions, since 1885.

Senator BROOKHART. There never was such a violent rise as in those 9 or 10 years?

Mr. MEYER. That is correct.

Senator BROOKHART. And during that same time agricultural lands were going down. How do you account for that discrimination against agriculture?

Mr. MEYER. I do not know that I account for it as a discrimination.

Senator BROOKHART. You think it was perfectly logical and natural and economic that it should go that way?

Mr. MEYER. I am not saying that it is; I am merely saying that I do not call it discrimination. Taxes went up on the lands, and I think that has been one of the big factors.

Senator BROOKHART. We will not dispute over that.

Mr. MEYER. Of course, industry began to pay very high wages, and more people went into industry. That naturally took some of the competition for land out of the situation. Prices, of course, went down in 1920 and 1921 disastrously for a while.

Senator BROOKHART. We have always been taught that the economic situation was such that if cities increased the demand for agricultural products would increase and that would increase the prosperity of the farm.

Mr. MEYER. I think the volume of production from the farms increases through machinery, better roads, and so forth.

Senator BROOKHART. Machinery does not increase the volume of production; that simply decreases the number of workers necessary to operate the farm about the same as in a factory.

Mr. MEYER. There was some new land opened up in the Northwest. I think that on the whole the yields per acre increased in that period as compared with previous periods.

Senator BROOKHART. The yields per acre increased up until 1900, but they have not, on the whole, increased any since 1900.

Mr. MEYER. Of course, production may have increased due to mechanical appliances.

Senator BROOKHART. I was talking about the increase in the acreage. The value in 1920 of agriculture, the total value of its assets, was about $79,000,000,000; but the last estimate we have—I have not got the census yet, although some advance statements indicate there is going to be about forty-nine billion, a decline of some $30,000,000,000 in capital investment in all agriculture.

Mr. MEYER. That was practically the war peak. I do not imagine that the figure you indicated for Iowa land, $224 an acre, would furnish the basis for that decline and check with it.

Senator BROOKHART. I think that if agriculture had a square deal that $224 is a cheap price for that valuable Iowa land. Do you not think so?

Mr. MEYER. On the best farms I should agree with you.

Senator BROOKHART. Well, on an average of the State. Of course, three-fourths of Iowa is best.

Mr. MEYER. You can talk about a farm from the point of view of the natural qualities of the land; and then you can talk about whether it is hilly or flat, whether it is near a good road or market, whether the improvements on it are up to date and in good condition, and whether the farm has been maintained in good condition. You know better than I that a farm can run down under bad management, no matter how good it is when you start.

Senator BROOKHART. At this time there are plenty of sales being reported to me for less than the value of the improvement.

Mr. MEYER. You may find that condition existing in New England in even a greater degree.

Senator BROOKHART. Well, that is what I am getting at. Is agriculture getting a square deal under this economic situation; and if not, I want to see what you know about the causes and what our credit system is going to do for the farmers.

Mr. MEYER. When you ask if it is getting a fair deal, I will say this: I have been here most of the time during the past ten years. The problem became acute in 1921 with the collapse of prices all over the world, agricultural and industrial and commercial. I have never seen a time in the ten years when the Congress of the United States not only was willing but most anxious to do anything that it could to help agriculture. It passed a number of measures designed to do so. I do not believe, Senator, that any good proposition that was put before the Congress, or that could have been, ever had a chance to meet with a better reception from both Houses of Congress.

Senator BROOKHART. Yes, but I remember how it got vetoed in the White House, too.

Mr. MEYER. There may be some disagreement about what is the best thing to do; but I will say that I do not think there ever was a time when the people of the United States, including the people that you condemn and dislike, if you like—maybe some of them deserve it and maybe not all of them do, as you seem to think—when the whole country really has been as much interested in doing anything that can be done for agriculture legitimately and soundly, by which I mean properly and effectively.

I feel that the maintenance of a sound agriculture should be a foremost principle of State policy. I can not speak for other people, but I believe that the people of the country feel just that way about it.

They do not want this country to be completely industrialized, or want it to be industrialized, for instance, as much as some of the European countries are. The people of this country, if it were left to them on a majority vote at any time within the last few years, or now, would, I believe, vote for a well-balanced agricultural, industrial, and commercial structure.

The problem, I think, is how to bring it about successfully in a period of upheaval in the world following the war. You are confronted with different problems at different times. For 10 years Russia was out of the wheat market completely. Now all of a sudden Russia has come back into the wheat market.

Senator BROOKHART. Yes; but with about one-fourth what they used to sell.

Mr. MEYER. Whatever they formerly sold but did not sell for 10 years had to be supplied by somebody. And the Canadians opened up vast areas in Saskatchewan and Alberta, and they were competing with our wheat. Now Russia comes in and is creating a new situation in the wheat market.

Senator BROOKHART. And the world situation is very different and the world business demand has increased.

Mr. MEYER. The Canadian production has increased enormously in the last 15 years.

Senator BROOKHART. And Russia has——

Mr. MEYER. But they have come back since. They had a series of events to contend with in the last 10 years.

Senator BROOKHART. I want to go back. You mentioned something about Congress doing an effective thing.

Mr. MEYER. I did not say that it did or did not. I said that I did not know of a time when Congress was not ready to do so.

Senator BROOKHART. Congress did effective things for the railroads, did it not?

Mr. MEYER. Senator, I do not know that I am prepared to discuss the railroad situation and the action of Congress with regard to the railroads.

Senator BROOKHART. Do you think that has any bearing on agriculture or the economic situation?

Mr. MEYER. It is one of the things.

Senator BROOKHART. If the farmers' railroad rates increase the farmers' prices decrease, do they not?

Mr. MEYER. Not necessarily. Sometimes they do and sometimes they do not.

Senator BROOKHART. Where is the farmer's price fixed any way? How does it get fixed?

Mr. MEYER. These questions are so broad that the discussion would lead us on forever. The prices of different farm products are fixed by the markets in different places and under different conditions.

Senator BROOKHART. We are not getting away from the subject. Here is a man, Mr. Chairman, who is to manage the biggest economic system in the world; and agriculture, which is the biggest proposition in the United States, gets the worst of it. This is all material.

Senator CAREY. But Mr. Meyer is not a member of Congress——

Senator BROOKHART. I am not blaming him in any way for what Congress did.

Mr. MEYER. Different prices are fixed by the markets in different places depending on different conditions and different commodities.

Senator BROOKHART. Let us take the big staple crops.

Mr. MEYER. Some commodities travel quite a distance and some have to be sold locally.

Senator BROOKHART. Let us take the big staple crops, such as cotton, corn, wheat, and livestock products, those that have an exportable surplus.

Mr. MEYER. Do you mean to say that corn is an export crop?

Senator BROOKHART. I noticed you said it was not.

Mr. MEYER. Not to any great extent, I said.

Senator BROOKHART. I looked for the figures for last year, and found they amounted to 34,000,000 bushels.

Mr. MEYER. That is a little more than 1 per cent. We probably imported some corn, too.

Senator BROOKHART. But 34,000,000 bushels is quite an item. We have a shortage of corn now, and the lowest price in about 15 or 20 years.

Mr. MEYER. Of course it is not the lowest price in 15 or 20 years.

Senator BROOKHART. It is the lowest since 1920, anyhow.

Mr. MEYER. It was lower in 1921, Senator, a good deal lower.

Senator BROOKHART. Maybe it was, a little, in 1921.

But as a general situation, the farmer's price is fixed by the sale of his surplus in the markets of the world, is it not?

Mr. MEYER. I would not say that in all cases; the export commodities are to some extent.

Senator BROOKHART. The Farm Board has raised wheat recently above the world market. You are familiar with that, are you not?

Mr. MEYER. I have read about it in the papers.

Senator BROOKHART. But last year it was below the world market.

Mr. MEYER. It could not be below the world market; otherwise it would not be the world market. Whatever is the price at which it is selling is the market.

Senator BROOKHART. Let us take the cashier of the bank at Humboldt, Iowa. He owns a farm at Portal, N. Dak. Portal is on the Canadian line. North Portal is across the street, in Canada. He sold his wheat across the street in Canada and paid 12 cents a bushel tariff to the Canadian Government to get it across. They have come up on us now, and it is 42 now, but it was 12 then. He had 9 cents a bushel left more than he was offered for the same wheat the same date on his own side of the street.

That was the situation in 1929, and that has been the general situation since the war up until this year, when the Farm Board bought this surplus.

Does not that prove that the farmer's price is fixed by foreign markets less the freight expense of reaching the foreign market? The tariff does not protect him any.

Mr. MEYER. I remember that many years back the hard winter wheat up there in the Northwest sold for considerably more than the Canadian price.

Senator BROOKHART. There is some particular brand of hard winter wheat that did, but I am not talking about that; I am talking about the general grade of wheat.

Mr. MEYER. I am talking about one grade of wheat and you are talking about another one. Take durum wheat which is exported and grown for export, and it will be selling at the price on the export market.

Senator BROOKHART. Before we leave the stock market; Prof. Irving Fisher shows on his chart a scale of 43.2 in 1914 and 132.9 at the beginning of 1930 after the big panic in New York. After the slump it was still 132. Professor Fisher says that means that stocks since the slump are still 208 per cent above the 1914 level. Is that right?

Mr. MEYER. I have not the figures in front of me. It may be right, Senator.

Senator BROOKHART. Does not that mean that stocks are still enormously inflated, even with the slump we have had?

Mr. MEYER. Some may and some may not be.

Senator BROOKHART. But as a whole?

Mr. MEYER. You can not take that as a whole, Senator.

Senator BROOKHART. I understand that; but here is the average of all of them.

Mr. MEYER. That does not mean anything to me. I don't understand that, Senator. Take industrial stocks. Each one is subject to new influences. The automobile industry had a great growth over a period of years. It is now a grown-up industry. It can not expand its business from the present level of volume in the same proportion that it did 10 or 20 years ago. Every industry has its own controlling factors. It is just like your land in Iowa. There was a time when it was perhaps the cheapest land in the world. Now it is just as good but not as cheap as it was 30 or 35 years ago.

Senator BROOKHART. It is as good.

Mr. MEYER. I would not say it is as cheap.

Senator BROOKHART. I think it is as cheap, considering the improvements.

Mr. MEYER. I would not think it was as cheap as when you could get it at $1.25 an acre.

Senator BROOKHART. You could not get it for that 30 or 35 years ago.

Mr. MEYER. Well, 50 years ago. I would not say it was too high even if selling at a hundred times what it was 50 years ago. I do not see how that has got anything to do with this.

Senator BROOKHART. You do not see that the economic situation ought to protect farm values as it does stock values?

Mr. MEYER. I do not want you to put those words into my mouth. I did not say that and I do not think that.

Senator BROOKHART. That has been the result, has it not, whether it ought to have been or not?

Mr. MEYER. I don't understand what you are driving at, Senator.

Senator BROOKHART. We will try it again, then. I want to see if I can get you to understand some of this farm problem.

There is $59,000,000,000 or such a matter invested in agriculture on an average—unless this Census reduces it—since 1920. There are about 12,000,000 workers on the farms of the United States. They have produced a gross value of about $12,000,000,000 a year. During this same period there has been about $40,000,000,000 invested in manufacturing and there are fewer than 9,000,000 workers in the factories of the United States, about three-quarters as many, and they produce a gross value of about $60,000,000,000 a year.

Does that indicate any discrimination against agriculture?

Mr. MEYER. It may or it may not. Of course, there is not any moie land than there was before. Plants have been increased by the investment of large sums. There has been a big expansion, I imagine, in automobile capacity which may or may not be valuable now, depending on how useful it is. There has been a great expansion of steel capacity, I imagine.

Senator BROOKHART. I doubt if there is as much capital investment as there was in 1920, because that was on an inflated value. As I recollect, it was about 45 billions then and then it ran down to 40 or such a matter.

Mr. MEYER. There has been a vast amount of capital put into industrial expansion in the last 10 years, and perhaps too much. Comparatively speaking, nobody built any new lands in the United States since 1920; we have got the same amount of land.

Senator BROOKHART. That would be a good reason for it to advance, would it not?

Mr. MEYER. If we were not suffering from competition in other things——

Senator BROOKHART. But we are shutting out the competition by the tariff, so it is not——

Mr. MEYER. We are not doing it on things like cotton, of which 50 per cent has to be exported.

Senator BROOKHART. Of course there are some comparisons that some allowances need to be made for. The raw material bill of the factory is bigger than the raw material bill of the farm. But 27 per cent on the farm is raw material, feed and seed, work animals, breeding animals. They must be kept on the farm to operate the farm. There are also fertilizer, machinery, and the depreciation of the machinery. That consumes 27 per cent that the farmers produce; but the manufacturers' raw material bill is still greater, nearly twice as big. You have to subtract some 16 billions from the 60 billions to get it down to 27 per cent, but there is still 44 billions produced by two-thirds of the capital and three-fourths of the workers that produce only 12 billions on the farms.

Does not that indicate heavy economic discrimination against agriculture?

Mr. MEYER. I can not accept the word "discrimination."

Senator BROOKHART. What does it indicate to you, then?

Mr. MEYER. I do not know exactly what it does indicate. I remember seeing a building program in this country in terms of seven billion or eight billion dollars a year—housing, offices, factories and other kinds of plant—and that has been going on for years.

Senator BROOKHART. You can go up to Chicago and see 60 per cent of those skyscrapers in the hands of receivers.

Mr. MEYER. I know, but they have some value, anyway. You might see them in the hands of receivers; the hotel Shoreham went into the hands of a receiver, and I went in there and found the place was full and every room was taken.

Senator BROOKHART. Some F. H. Smith Co. deals went in the slump too.

Mr. MEYER. Yes; but I can not see that the Shoreham Hotel can be considered as not existing. It cost two or three million dollars, possibly. I do not know what it cost.

Senator BROOKHART. I am not claiming it is not existing.

Mr. MEYER. It can not be considered as worthless.

Senator BROOKHART. It is existing too much, and there is too much discrimination against agriculture in this situation.

Mr. MEYER. You choose to use the word "discrimination" because it implies an act of an agent maliciously contriving something disastrous; and I do not accept that explanation.

Senator BROOKHART. A little later I will ask you something about the Federal Reserve Board's action in reference to that identical thing.

Mr. MEYER. At what time?

Senator BROOKHART. At the time the deflation began, in 1920.

Mr. MEYER. I do not know anything about the Federal Reserve Board's policy in 1920.

Senator BROOKHART. I will have to see if I can not show you something about it.

I have compared agriculture with manufacturing. Now let us compare it with transportation.

In 1920 the Congress came to the relief of the railroads very efficiently and passed the Transportation Act, and since that law was passed, there has been, on their own claim, from 19 billion to 23 or 24 billion dollars of capital invested and there have been about a million and three-quarters workers. They have had a gross revenue of about six and a half billion dollars, considerably more than half as much as the 60 billions of the farms and 12 million workers on the farms. Does not that indicate another heavy discrimination, caused in that case by a law of Congress? I am not blaming you for that.

Mr. MEYER. I do not know whether it does or not. I have nothing to say about it. I have not studied it.

Senator BROOKHART. I see you have not. I think you need to study something.

Mr. MEYER. I expect to study a lot of things.

Senator BROOKHART. The Interstate Commerce Commission was directed to fix the value of the railroads as a basis of levying rates upon the people of the country. That law was passed the first of March, 1920, and under the rules and regulations the Commission proceeded to fix that value, and it fixed it about the first of September, 1920, at $18,900,000,000—practically $19,000,000,000. At the moment that value was fixed by law the market value of these railroads, as shown by the value of their stocks and bonds representing all their property, was less than $12,000,000,000. In other words, if you had gone out and bought them at their market quotations you could have bought the whole outfit for about eleven and three-quarter billion, but the law sold them to the people of the country for the purpose of making rates at nearly nineteen billions.

Is not that a discrimination against agriculture when it raises their rates about 50 per cent?

Mr. MEYER. I do not want to put in the position of criticising the action of Congress, Senator. I am not here for that.

Senator BROOKHART. You do not need to criticise anybody. I am asking you the economic effects.

Mr. MEYER. I do not want to express opinions on things which I do not pretend to know about and which I do not think have anything to do with this matter. I am not a candidate for membership on the Interstate Commerce Commission, which has charge of rates.

Senator BROOKHART. We will make another comparison. I have a bulletin here of the National City Bank which shows that the national banks of the United States in 1925 earned 8.34 per cent upon capital, surplus and undivided profits. That is about right, isn't it?

Mr. MEYER. Is that right? I don't know what they earned in 1925. If you say it is right I assume it is; but I don't want to be put on record as saying something you say is right. If the City Bank says it, I suppose there is some basis for it; but I don't know. I haven't got every figure in my mind that you can think of.

Senator BROOKHART. I think the biggest problem for you as Governor of the Federal Reserve Board is to know about these big things and these totals.

Mr. MEYER. Do you think I ought to have in mind all the reports of that kind for all the banks in the United States?

Senator BROOKHART. I do not think you ought to have any of them. It is the total and average that I am talking about, after one of the statisticians has figured it up for you.

Mr. MEYER. You asked me if it was right. I don't know whether it is right or wrong.

Senator BROOKHART. I meant, is it correct?

Mr. MEYER. I don't know whether it is correct. I am not used to verifying figures without personal knowledge or a chance to investigate.

Senator BROOKHART. Do you know what the net income of all the capital of the United States is?

Mr. MEYER. I do not, and I don't believe anybody else does. I am not interested in anybody's opinion on it, because I think it would be nothing but an opinion.

Senator BROOKHART. The Census gives us that information. You are aware of that, are you not?

Senator REED. If you will pardon the interruption: I have just been told by one of the newspaper gentlemen that I have been quoted as saying that Mr. Mellon announced that farm prices were too high, and that I called him a damned fool—

Senator BROOKHART. Oh, no. It was the other way. I brought in a quotation from a newspaper in which Mr. Mellon said, as he left the wharf up at New York, "There is great prosperity ahead for the United States. Steel orders are larger and prices higher;" and he mentioned two or three other lines, and he said, "Farm prices are lower as they should be."

That is the matter I brought to your attention, and then you said to me, "Well, he is a damned fool for saying it if he thought it."

Senator REED. I would like to say, in the same hearing in which that anecdote has been recounted, that I have no recollection of ever seeing such a clipping or of ever talking to the Senator about it——

Senator BROOKHART. I brought it to you at your desk in the Senate Chamber.

Senator REED (continuing). —or ever hearing that Mr. Mellon passed in judgment on farm prices. I have known him since my babyhood, and he is almost the last person on earth that I would apply such an epithet to. I have no recollection of any such thing happening, and I am sure that I never said any such thing as I have been quoted as saying; and in justice to Mr. Mellon I would like to have that placed in the record of your hearing.

Senator BROOKHART. I am sure you did say substantially that. That is substantially what you said to me at the time, Senator.

Senator REED. I have called some people by that name, but not Mr. Mellon.

Senator BROOKHART. I think that last remark is true as a general proposition.

The census report shows in 1912 to 1922 a capital increase of about 5½ per cent a year. I have the National Industrial Conference Board report which up to 1928 reduces it to 4¼ per cent. If that is true, in 1930, with all this depreciation, it would be reduced down below 4 per cent. Senator Howell has estimated it through the whole history of the country as a little less than 4 per cent. If we say that 4 per cent is all there is, all the earnings of all labor and all capital and the increase in property value, including the value of all the new territory we have acquired, and everything—only about 4 per cent a year—if that is all there is in the American pool of production, when one block of capital dips out more than that, some other must take less. Is not that true?

Mr. MEYER. That is the way the figures are compiled. Of course if you take the aggregate amount and deduct some, that means the rest have what is left, or vice versa.

Senator BROOKHART. Do you think that it is of any importance that in the administration of the Federal Reserve Board we should consider the production or rate of production of all captial and all earnings in the country?

Mr. MEYER. I haven't much confidence in the figures as collected on the earnings of the capital of the country.

Senator BROOKHART. You do not think any statistics about earnings of wealth production of the country are of any value in the economic system?

Mr. MEYER. I do not think they are reliable. That is just my own opinion.

Senator BROOKHART. Then you would condemn the United States Census for making such——

Mr. MEYER. No. I think that is their job, to get the best figures they can.

Senator BROOKHART. But if they are of no value after they do get them?

Mr. MEYER. Some I would not attach too much importance to. I think they can count the population pretty well, and they know a lot of things, but on that subject I do not know that I would be willing to accept anybody's figures. Do they claim perfection for those figures?

Senator BROOKHART. Nobody claims perfection, and I did not ask my question on the theory that they are perfect, but that approximately they are all right. You ought to know that.

Mr. MEYER. It is just a matter of confidence in their ability to collect figures of that kind.

Senator BROOKHART. Don't you think that they are reliable, approximately?

Mr. MEYER. I would not have any opinion on that, as I do not know how they collected them.

Senator BROOKHART. Your theory is that it is all right for the national banks of the country to take out 8.34 per cent of capital, surplus and undivided profits, even though agriculture has no net earnings and its capital is depreciated?

Senator WAGNER. Mr. Meyer never told us any such thing.

Senator BROOKHART. No, but that is what I tell him.

Senator WAGNER. You tell him what he believes?

Senator BROOKHART. No; I am asking him if he believes that.

Mr. MEYER. I neither believe it nor disbelieve it. I have nothing to say about it. I do not see what it has got to do with the subject under discussion.

Mr. Chairman, I want to be just as patient and as frank as I can about everything that is proper, but the Senator is bringing in a lot of figures and facts which do not seem to me to have anything to do with my qualifications for this position. We can go on with this for weeks and months and years. I don't know what you think about it, and the other gentlemen of the committee, but I doubt that any other candidate for this position was ever subjected to this line of cross-examination. I don't think Governor Young was when he was appointed, or Governor Harding or Governor Hamlin or other members of the board. This may not be a matter for me to express my opinion on; I merely want to raise the question.

Senator BROOKHART. When Paul Warburg came in he took the same attitude you do and refused to answer for a long time at all, but he finally answered; and I think the Senate of the United States will require you to answer.

Mr. Meyer has taken, Mr. Chairman, two or three times as much time talking and bragging about himself here, as I have asking questions. Even this afternoon he has occupied more time by a good deal than I have in this matter.

Mr. MEYER. It takes longer to answer questions than it does to ask them, Senator.

Senator BROOKHART. I am not complaining about that. What I am stating is that he has no right to make such criticism as he has just suggested to the committee.

Mr. MEYER. I have a right to raise a question with the committee, Senator.

Senator BROOKHART. I think these matters that I am inquiring about are of tremendous importance in the administration of the credit system of this country, and I shall certainly make the claim that the man who does not think so and does not try to understand them and know them is not the man to be at the head of this system. That is the way I look at it.

Senator CAREY. I want to say in answer to your question, Mr. Meyer, that I do not wish this hearing to go on interminably. In fact, we are all getting tired of it. But I would like, when your nomination comes to the floor of the Senate, to have so conducted this hearing that no one can say that certain questions were not asked you which should have been asked. I think some of these questions have little bearing on your qualifications for the position.

As far as continuing this hearing is concerned, if the other gentlemen of the committee will stay with me we will finish this to-night.

Senator WAGNER. I will stay.

Mr. MEYER. I want to be frank, and of course I want to be honest. I do not pretend to know everything about everything, and so if I do not know some things, let it not be a great surprise to the committee.

Senator GOLDSBOROUGH. If you did know everything about everything, I think it would be a great surprise.

Mr. MEYER. I think it would, too.

Senator FLETCHER. The quickest way is to say you do not know and have no opinion, and let it go at that, without arguing.

Senator BROOKHART. You have read the minutes of the Federal Reserve Board meeting known as the deflation meeting of May 18, 1920, have you not?

Mr. MEYER. I think I did, many years ago, read those minutes, so-called.

Senator BROOKHART. In those minutes, on page 8, Governor Harding in his speech said that the directors of Federal reserve banks are clearly within their rights when they say to any member bank, "You have gone far enough. We are familiar with your condition. You have got more than your share and we want you to reduce. We can not let you have any more."

Do you think that the Federal Reserve Board ought to adopt a policy of general deflation such as indicated by that language?

Mr. MEYER. I do not know what that language means—a general deflation. As a matter of fact, Senator, I have not read that document, I think, in many years. I had nothing to do with the Federal reserve system at the time. I did not know anything about that meeting, of course, and I am not prepared to discuss it.

Senator BROOKHART. This meeting, after discussing the matter of general deflation, when Governor Harding's whole speech was to the effect that there were too many Federal reserve loans and that they ought to be reduced—is not the proper time to reduce these loans when they are made? Is not that the time to consider inflation or deflation?

Mr. MEYER. Of course inflation is much better prevented than cured.

Senator BROOKHART. But after the Federal Reserve Board had approved these loans in a wholesale way, do you think it was right then to turn around and call them in in a wholesale way and bring on a general deflation?

Mr. MEYER. Senator Brookhart, I am not prepared to discuss the events of 1920 to which you refer. I had an opinion at that time on proper policy. I advocated the continuance of the War Finance Corporation to help the situation. I went out and fought for its revival; but I was not in touch with the Federal reserve policy and I am not able to bring back to my mind the situation of 1920 from the point of view of the Federal reserve system, because I did not know it at the time.

Senator BROOKHART. You advocated the War Finance Corporation, and——

Mr. MEYER. Which had only power to help finance exports at that time.

Senator BROOKHART. But I believe you said it loaned Iowa $24,000,000?

Mr. MEYER. That was later on, in 1921, under different powers.

Senator BROOKHART. That was following. This deflation did not start on May 18. They delayed it until October.

Mr. MEYER. It started in 1921, a good deal later—the lending in Iowa, I mean. The deflation had occurred.

Senator BROOKHART. When you made the loans?

Mr. MEYER. By that time.

Senator BROOKHART. And the Federal Reserve Board had called some $55,000,000 of loans in Iowa?

Mr. MEYER. I do not know how many they called in Iowa. I had no contact with it at the time.

Senator BROOKHART. In the fall of the year, at the time they held these meetings—and they held four of them in Iowa, in October——

Mr. MEYER. Who did?

Senator BROOKHART. The Federal reserve bank.

Mr. MEYER. I do not know anything about those meetings. I did not know there was any. I do not know anything about it.

Senator BROOKHART. I was at one of them, so I know a little bit about it. They said to us, in substance, this: "We have loaned you $91,000,000. The Federal reserve allotment is $36,000,000 to the whole State; and the time has come when the people are entitled to that fifty-five million of credit and want it; so you will have to sell your crops and reduce these loans."

That is substantially the statement that was made, And then we asked the representative of the Chicago Federal Reserve Bank who it was that had made the allotment of $36,000,000 to the State of Iowa for Federal reserve loans, and he did not know. Since than I have inquired of the Federal Reserve Board itself, and nobody knew. I reached the conclusion that there was no such allotment made.

What I want to ask you is, if there should be such an allotment made, if that is a right policy, when Iowa produced even in hard times $600,000,000 of grain and livestock value, and five or six hundred million of industrial value, because industry is worth two or three times as much as agriculture. With that amount of production, is there any reason to limit Federal Reserve loans to Iowa to $36,000,000?

Mr. MEYER. I should say not. I have no hesitation in saying absolutely not. Of course, in 1920 everything was very complicated, and the railroad congestion and the inability of the products of the farms to find their way to market were important factors. You remember, Senator Carey, that lots of cattle and sheep men drove their cattle and sheep to the railroad yards and sidings and they could not get freight cars and had to drive the cattle and sheep back again up into the hills.

Senator BROOKHART. That would call for a greater allowance of Federal Reserve loans.

Mr. MEYER. Yes. I think it was responsible for more, too.

Senator BROOKHART. In October when the crops are maturing, that demands great increase of rediscounts?

Mr. MEYER. Yes.

Senator BROOKHART. They passed still another resolution at this meeting, besides the one indorsing Mr. Harding's speech, resolving that the conference urge as the most important remedy that the Interstate Commerce Commission and the United States Shipping Board give increased rates and adequate facilities such immediate effect as may be warranted under their authority, and that a committee of five be appointed by the Chair to present this resolution to the Interstate Commerce Commission and the United States Shipping Board.

Do you think it is a correct policy, to send a committee to the Interstate Commerce Commission to increase railroad rates when you are deflating all the rest of the country?

Mr. MEYER. As a function of the Federal Reserve Board?

Senator BROOKHART. Yes.

Mr. MEYER. Without being able to go back to the circumstances of the time, I can not conceive at the present time of the board—you say the board did that?

Senator BROOKHART. The board and advisory council and the Class A directors.

Mr. MEYER. I do not see any occasion for such action under present conditions, but I do not want to criticise what they did, because I do not know anything about the circumstances. At the present time, I can not imagine any combination of circumstances that would lead me as one member of the board to an expression of opinion on freight rates up or down or sideways. I say it is a matter for the Interstate Commerce Commission and the railroads and the Congress of the United States.

I think, Senator, I might say in general that I would like to see the Federal Reserve Board mind its own business; and I do not think freight rates are part of the business of the Federal Reserve Board.

Senator BROOKHART. I think that is one point where we will agree.

Mr. MEYER. I think we agree on a lot of points, if you would only admit it.

Senator BROOKHART. Here comes another. Let us see if we agree on this.

At this meeting they considered raising the discount rate. In fact, three-fourths of the discussion was about raising the discount rate. It was away up then, I believe, to 6 per cent. The general discussion was to raise it to 7 per cent. However, there was one gentleman from Iowa suggested even 8 per cent; and then when the board adjourned Governor Harding said to them:

> I would suggest, gentlemen, that you be careful not to give out anything about any discussion of discount rates. That is one thing there ought not to be any previous discussion about, because it disturbs everybody. If the people think rates are going to be advanced, there will be a mad rush to get into the bank before the rates are put up. The policy of the reserve board is that that is one thing we never discuss with the newspaper men. If he comes in and wants to know if the board has considered any rates or is likely to do anything about any rates, some remark is made about the weather, or something else, and we tell him we can not discuss rates at all, and I think we are all agreed that it would be very ill-advised to give out any impression that any general overhauling of rates was discussed at this conference.

Is that the proper method of procedure in reference to discount rates?

Mr. MEYER. I do not know, Senator, what happened at that meeting about discount rates or the conditions. I do not want to express an opinion about my predecessors and their actions. I might disapprove of them as much as you, and more; but I do not think it would be becoming in me, because some of the men who were present at that meeting are dead. Governor Harding is dead. What in the world is the use of you and me criticizing him and his actions here?

Senator BROOKHART. I am not criticizing him. I want to get these facts out here.

Mr. MEYER. That is what it amounts to. The facts I can not contribute to, because I am not familiar with them. You said it was a secret meeting, and I did not know anything about it.

Senator BROOKHART. Do you think banks should have the power of raising or lowering discount rates? Do you think that is the function of a reserve bank?

Mr. MEYER. To lower or raise the discount rate?

Senator BROOKHART. Yes.

Mr. MEYER. The law makes it a proper function.

Senator BROOKHART. Is that a proper economic function of a Federal reserve bank?

Mr. MEYER. I assume, from the fact that Congress lodged that power with the banks, that Congress believed so.

Senator BROOKHART. Congress thought the railroads ought to be valued at $19,000,000,000, when you might buy them for $12,000,000,000.

Mr. MEYER. I believe in the Congress of the United States in the long run. It may make some mistakes, but I think it is a pretty good American institution reflecting the will of the people to a most extraordinary degree.

Senator BROOKHART. What effect does the raising or lowering of the discount rate have on commodity prices?

Mr. MEYER. Commodity prices? I have seen discount rates go up and commodity prices go up, and I have seen discount rates go down and commodity prices go down, and I have seen them go the other way. I do not believe it is a direct control factor.

Senator BROOKHART. Is it a factor at all?

Mr. MEYER. It may be, directly or indirectly to a greater or less degree, depending on conditions and at different times.

Senator BROOKHART. What effect does it have on interest rates?

Mr. MEYER. Discount rates?

Senator BROOKHART. Yes.

Mr. MEYER. Sometimes it has some effect and sometimes it does not. In general, interest rates—what interest rates do you mean?

Senator BROOKHART. I mean, farmers' rates. You never seem to remember those.

Mr. MEYER. You were talking about railroads here a minute ago.

Senator BROOKHART. I mean, interest rates in general. What is the general economic effect on interest rates?

Mr. MEYER. Lower discount rates have an effect on commercial borrowers' rates and some perhaps on farmers' rates in some places and districts, and in others they do not have so much effect. In some of the states Federal reserve membership is extremely small.

You are talking about country banks that loan to the farmers. I think we can say that out of approximately 23,000 banks in this country there are some 15,000 banks, and mostly country banks, certainly, that do not belong to the Federal reserve system.

Senator BROOKHART. Yes; that is true.

Mr. MEYER. And there are a great many thousand of those country banks that are eligible for membership in the reserve system but do not belong to it. I called the attention of some of the committees of Congress years ago to the failure to enlist in the system a larger number of the eligible banks.

I do not think you can say that a discount rate does or does not do a particular thing. It depends on the time, the particular circumstances and the territory.

Senator BROOKHART. A little later I want to ask you a question as to why these other banks did not go into the system.

Mr. MEYER. I can not answer as to why they did not go in.

Senator BROOKHART. What happened after this meeting of May 18, so far as raising discount rates to force this deflation was concerned—that was sealed up in secrecy? There was a general statement, and in October they held public meetings all over the country with representatives of the reserve banks. They held four of them in Iowa, and I have told you what happened at the one that I attended. I noticed accounts of them as far west as California. After this meeting on May 18 was held, the Armour Co. went out immediately and secured a loan of $60,000,000 and paid 8 per cent to get the money, and 10 years time, evidently being warned of this deflation that was to come.

Mr. MEYER. It did not do them very much good, Senator, because Armour & Co. got into difficulty.

Senator BROOKHART. Yes; in Germany.

Mr. MEYER. No; here. Armour & Co. had to be reorganized, I understand. I do not know much about it, but I just remember that.

Senator BROOKHART. Swift & Co. secured a $50,000,000 loan a little later. Sinclair Oil Co. got $56,000,000 as a loan. They were a little forehanded; they started a few days before this meeting was held. They knew it was coming and got this loan. In that way big financial institutions all over the country during this same preiod went out and got loans. Everybody but Henry Ford. He didn't get any.

Mr. MEYER. He could have, of course, if he had wanted it.

Senator BROOKHART. Just a little later he wanted it and could not get it.

Then in October they held these public meetings and said, "Sell your stuff and reduce these loans." Would not the effect of that be to reduce farm prices?

Mr. MEYER. Prices declined at that time, Senator, all over the world.

Senator BROOKHART. The farm prices declined a percentage three or four times greater than prices in general.

Mr. MEYER. I would not say that, because all prices went down very greatly. You are talking about a period, Senator, when I had nothing to do with the policy of the Federal Reserve Board. I have already told you that I was out of sympathy with the policy that was pursued at that time with respect to the only thing that I had anything to do with, and that was the War Finance Corporation. When I stated that, you impugned my motives and sincerity. I never was more sincere in my life. I felt that I had to resign from the War Finance Corporation in May, 1920 on account of my difference of opinion. I did not know anything about the meetings to which you refer; I did not know anything about many other things that you may know about or that may be known about now. But certainly I showed by my actions, so far as I had anything to do with any question of policy, that I was not in harmony with their policy.

I think it got down to this, Senator, in those days. A great many men got frightened. Fear is a great element, and sometimes things are done because people get worried and fear seizes them. The word "panic" comes from a Greek word meaning fear. More harm is done in the world by fear than by conspiracies, which I think you are inclined to attribute it to. I believe that men are often weak in critical situations, and act foolishly. It may look like a conspiracy later on, but I think, really, it is largely lack of wisdom, and the fear element that controls people much more than the thing you are talking about.

While I differed with the policy at the time absolutely, I never felt that there was any conspiracy. I differed with Secretary Houston, who was Secretary of the Treasury, and resigned. As a matter of fact, other members of the Cabinet with whom I discussed these matters at that time agreed with me that something should be done; but Secretary Houston was an economist of the laissez faire school, who apparently had the idea that you have to let these natural forces work themselves out. I did not believe it. I felt we were still suffering from the economic consequences of the war so directly that we could not abandon the situation to the extent that he thought was all right. He thought so at a time when prices were high.

I have never questioned Secretary Houston's sincerity or his courage according to his lights. I simply differed with him on grounds of opinion and policy, and in that difference of opinion some of the most important members of the Cabinet sided with me. But the policy was the policy of the Treasury, and also, perhaps, if you say so, of others.

Senator Brookhart. Here is an illustration of how that fear works out. One Iowa Congressman, for instance, bought $2,000 worth of that Armour paper, sent his money up to Chicago to back up Armour, and when the fall of the year came around another Iowa Congressman, who probably is the most prosperous farmer in his county and had bought $16,000 worth of Liberty bonds. His bank called him in. He was feeding about ten or twelve hundred head of cattle. He owed something on them, but not much compared with their value. His banker said, "The Federal Reserve Board is calling for a reduction in these loans."

He said, "I can not reduce my loan now. My stuff is not ready to go. It means a very great sacrifice if I am forced to sell in this condition."

"Well," the banker said, "you have got your Liberty bonds."

"Yes, but I didn't buy them to sell. I bought them for permanent investment. I wanted to keep them for my children."

But the banker said that the Federal Reserve Boars demanded reduction of these loans, and he was forced to and did sell those bonds.

Mr. MEYER. Who said that—the banker?

Senator BROOKHART. Yes. I am not blaming the banker, because that is what Governor Harding said they should say.

Mr. MEYER. I want to say just at this point, Senator, that I do not know whether the Federal Reserve Board said it or these gentlemen—

Senator BROOKHART. That was the general statement at his meeting; there is no doubt about that.

Mr. MEYER. Please let me finish. When a banker out in the country calls a loan he loves to say sometimes that somebody else is making him do it. Sometimes it is so and sometimes it is not. You know that.

Senator BROOKHART. After reading Governor Harding's speech which I have here and after attending that meeting in which representatives of the Federal Reserve Bank said, "You are $55,000,000 over your allotment and you must sell this stuff and reduce these loans"—after that public movement on the part of the Federal reserve system I am not going to blame the local bankers for calling those loans under those circumstances.

Mr. MEYER. I can not discuss it, because I do not know the bank you are talking about, or the circumstances; but I just want to say in a general way that all of us here in Washington in Government bureaus, whether it is the War Finance Corporation or the Farm Loan Board or the Federal Reserve Board, are perfectly familiar with the fact that some bankers at times like to blame somebody else away from their town, maybe in Chicago or St. Louis or Baltimore or Washington or somewhere else, for making them do something they want to do.

Senator BROOKHART. But here was a loan that was perfectly good; there was no doubt about its payment. I can see no reason whatever for the banker calling that loan except that there was pressure from the Federal reserve system.

Mr. MEYER. I am not prepared to discuss that question, because I do not have knowledge of it.

Senator BROOKHART. About these 6,000 banks that failed since 1920; what was the trouble with them?

Mr. MEYER. There are many causes for that, depending on the location of the banks and many other factors. The number of banks grew from 1910 to 1920, by about 6,000, and they have gone down by about 6,000 since then.

Senator BROOKHART. The country grew in about that same proportion, did it not?

Mr. MEYER. No; I should not think so. There is no question that many of the State banking authorities, particularly your State and North Dakota and some other states, encouraged too many banks. You know there were some small towns where they had four banks on four corners.

Senator BROOKHART. And the proper way to get rid of them is to squeeze them out?

Mr. MEYER. No; I do not agree with you on that. The proper way would have been, as you suggested in connection with another matter, not to have permitted them in such large numbers. But a great many things, of course, happened. The deflation of course hurt those banks very much. The farm loan system had something to do with taking away from these small country banks a great many commissions which they used to get on farm mortgages, and there was some insurance business—a part of their source of revenue—that went with them. They used to make money on collections, and then money was deposited more locally until they began to build good roads, when in many instances it was taken into the larger towns. Some of the States built up an oversupply of banks through guaranty laws, like in Nebraska and Oklahoma and, to a certain extent, in South Dakota, and there was a banking inflation along with other war inflations. Some of the banks have gotten into trouble on account of mismanagement, although there are other small country banks that have been wonderfully well managed. I have a great respect for the small country banker out of the experience I had with them in the War Finance Corporation, because I found many excellent, fine, able men among them. In various States there were various causes. Some States suffered from poor crops and low prices, and others from drought. The cattle situation was responsible for a great deal of difficulty, and lately other things I think have had more to do with it.

The War Finance Corporation, I think, saved a great number of small banks that would have failed but for its help, and the letters that we received from bankers with whom we did business in 1921 and 1922 made me feel that the corporation rendered a real service to the small country banker and the farmers who depended on him, because they did not have to write those letters if they did not wish to do so.

Senator BROOKHART. Let us see the facts and see if that is the case. You started the War Finance Corporation in 1921, did you not?

Mr. MEYER. No. The agricultural credits act was signed August 24, 1921.

Senator BROOKHART. Up to May 18, 1920——

Mr. MEYER. 1920?

Senator BROOKHART. Yes—I divide this on May 18, the day that the deflation came—there were, from 1863, for 57 years, only 32 banks failed in the first Federal reserve district; that is, New England. About 0.56 per cent of one bank a year, about one bank in two years.

Then the Federal reserve deflation period came along, and the War Finance Corporation a little later, and failures in the first district declined about one in eight years.

Senator WAGNER. May I interrupt? I do not want to be complaining. I have avoided it as much as I could; but the Chair remembers, and so do the other Senators, that when the question came up as to whether Mr. Meyer ought to be questioned again, it was stated on the floor that the reason they voted for a recommittal was to give Mr. Brookhart the chance to inquire into anything which had occurred since the last inquiry. This whole subject of the War Finance Corporation has once been gone into, the whole subject matter. Senator Brookhart stated upon the floor that there were matters that had occurred since about which he wanted to inquire, and of course the opinion of the Senators was that Mr. Meyer, if he were present, would be willing to submit himself to that kind of an inquiry.

I am not finding any fault at all, but I am suggesting this to your sense of fairness. You are asking the witness all sorts of questions on all kinds of economic subjects, which of course we are interested in because you have an exceptional witness here upon these questions. But is it our understanding that you are going to traverse this whole field again and start from the beginning and go all through this thing which the Senate and a committee of the Senate have already passed upon?

Senator BROOKHART. I would have to have a different conception of what the Senate passed upon. I do not think the Senate put any limit on what questions I should ask.

But here is what I am going to do now. I am going to make a comparison now with the condition that existed before, and it is not going to take very long.

Senator WAGNER. I am just hoping that you will be reasonable about it.

Senator BROOKHART. I am going to get at the facts whether they are reasonable or not. I want the facts and I will have them brought out.

Senator WAGNER. I do not want to get into a controversy with you as to what you regard as facts.

Senator BROOKHART. Now, let us see. The first Federal reserve district, then, after May 18, had a decline of about 75 per cent in bank failures.

The second Federal reserve district, New York, during this same 57 years, had 1.09 a year, which is slightly over one bank a year.

Then after this date—this is up to 1927, however, not quite up to date—they had 0.26, a decline of about 75 per cent in bank failures.

The third district—that is, Philadelphia—had 0.39 per cent, one in about three years, and they declined to 0.26 per cent, nearly 33 per cent decline.

When we come to the fourth district, Cleveland, there is an increase of about 50 per cent in failures.

In the fifth district, North and South Carolina and Virginia, there is an increase of nearly 300 per cent.

In the sixth district, Georgia and Alabama, there was about a 300 per cent increase.

The seventh district runs about 900 per cent increase.

The eighth district, nearly 700 or 800 per cent.

The ninth district, 2,500 per cent increase.

The tenth, eleventh, and twelfth districts had an enormous increase.

How does it happen that after we got all this assistance from the Federal Reserve Board and from the War Finance Corporation, the bank failures went down in the three eastern districts and then went up so enormously in all the rest of the country?

Mr. MEYER. Senator, certainly I am not responsible for the acts of the Federal reserve system in 1920. I assume you are not stating that?

Senator BROOKHART. No, I am not attaching to you any responsibility, but I am asking the economic cause of this.

Mr. MEYER. When you go into the business of lending to the country banks in 1921, the War Finance Corporation naturally loaned the most where the need was greatest, according to the applications received through our agencies. Loans were made in Washington, upon the recommendations of the Corporation's agencies. You felt that perhaps we did not lend enough. We loaned what the committees recommended for the most part, and I think that what could be done by lending was conscientiously done. You rather reproach us for not lending more out of the total. We were ready to lend more and agreed to lend more than they actually took when they finally came to it. But a great deal depended on the conditions of the banks and a great deal on the supervision of the banking department of the States.

I do not want to criticise it now at this late period, but some of the banking supervision in some of the States was extremely poor——

Senator BROOKHART. Let me pause a moment there upon that proposition. I find a history here for 57 years, and just preceding this, when the same management was most excellent in all these States, there were almost no failures to amount to any thing.

Mr. MEYER. There was a great expansion in banking all through the war and the first part of the postwar period.

Senator BROOKHART. There was not much expansion in Iowa, because we stopped it.

Mr. MEYER. You did not stop it in time, Senator. You had something like 1,900 banks in Iowa. There was 1 for every 600 or 700 people in North Dakota, and it was impossible to support banks on a prosperous basis in any such proportion. You have many strong country banks in Iowa now. I remember two or three years ago driving out through Dallas Center, outside of Des Moines. There were, I think, about 700 people in that town and they had something like $2,000 per capita, man, woman, and child, on deposit in the bank there. It must be recognized that many of the states in the West were what they call overbanked, and many of them had very poor banking supervision. You thought we did not lend enough. If the quantity of our loans were the critical factor by which you would judge us, then I would like to ask you why we loaned $24,500,000 in Iowa, $16,000,000 in South Dakota, and $28,000,000 in Texas, and so on through the South and West—12 or 13 million each in North and South Carolina and six and a half million in Georgia—and the total loans we made at that time in Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, Pennsylvania, Delaware and Maryland, were $600,000, that amount having been loaned to one organization making small loans to farmers. Now, if it was a good thing to lend money to the banks, we certainly were not fair to the banks in this part of the country if they needed it—we did everything we could; we could not make a bank solvent by lending it money, if it was insolvent. We loaned to banks when we were in doubt whether they were solvent or not, but we thought they were serving some useful purpose in their community. Nobody could really tell at that time, because things were in a very doubtful condition. We could not tell whether a bank would come through or not. Some of them that were in doubt did come through and are now prosperous banks. Others are not. Of course, what has happened in the last few years I can not tell you, because our main period of activity was 1921 and 1922, and perhaps a little in 1923 and 1924. But here seven years have gone by and you want to ask me why those banks failed since the time we were actually in the business of making loans to the extent that we were authorized under the law; and, of course, I am not in position to give you the information.

Senator BROOKHART. What was the largest loan you made at any one time to agriculture?

Mr. MEYER. I will send you that figure. I do not remember it.

Senator BROOKHART. Can you remember approximately? I do not care for the exact figure.

Mr. MEYER. No; these things are eight or nine years old. If I answer offhand here I might make a mistake. If you will just make a note of it, Mr. Fahy, I will furnish the figure.

Senator BROOKHART. You can not make some estimate here?

Mr. MEYER. I am sorry, but I do not keep every figure in my head. I am not a walking encyclopedia of the facts of the last 40 years.

Senator BROOKHART. You loaned Iowa $24,000,000, you say?

Mr. MEYER. Twenty-four and a half million, I think.

Senator BROOKHART. But Iowa's crop value, even at these low starvation prices, is $600,000,000 as compared with her industrial production of the figure that I stated. So that was only a drop in the bucket affecting the Iowa situation.

Mr. MEYER. It was a very important drop, though.

Senator BROOKHART. Since the Federal Reserve Board had just called us for $55,000,000, a good deal more than twice as much as you loaned us, the biggest drop was against us, was it not?

Mr. MEYER. I do not know what the Federal Reserve Board did in Iowa. I did not have anything to do with it.

Senator BROOKHART. And you have no idea why this thing has worked out to the advantage of the eastern districts and to the disadvantage of the western districts?

Mr. MEYER. Some parts of the West are very prosperous. On the whole, I think your State is considered as well off as any State in the country, industrially or agriculturally.

Senator BROOKHART. I practiced law for 30 years in that State, and I did not know what the foreclosure of a mortgage was. We did not have them. When I came to the Senate and turned my business over to my brother, his principal business has been foreclosures and bankruptcies, and he has had more business than I ever had, because we got all this help from the War Finance Corporation and the Federal Reserve Board and the railroads—I am not putting it all on you—and the earnings dipped out of this American pool two or three or four times as large as the average there is in it.

Mr. MEYER. I included in the record of the hearings, three years ago, when you went into this whole War Finance Corporation business, letters from country bankers and others in Iowa and other States which came to us unsolicited, as far as I can remember, largely in the course of correspondence, testifying to the helpful and beneficial effects of the aid we rendered them.

Senator BROOKHART. Perhaps you did help them; but how about the other fellows that did not write, like myself?

Mr. MEYER. I have not seen you very bashful about inserting letters in the record against me whenever you had any.

Senator BROOKHART. I have not inserted one up to date, and I have got a lot of them.

Mr. MEYER. You said you had one from Mr. Beck, and he told me you did not have.

Senator BROOKHART. I checked that, and I am mistaken about it. Mr. Beck came to see me with Mr. Davis, the two together, and Mr. Davis is the one that wrote the letter and not Mr. Beck.

Mr. MEYER. I was only referring to what you said.

Senator BROOKHART. I remembered very distinctly Mr. Beck coming to see me.

Mr. MEYER. I do not know Mr. Davis.

Senator BROOKHART. He told me how you had frozen up the Federal land banks so they could not get any more loans. I have here some of those letters and a list of those loans that were turned down by that bank.

Mr. MEYER. That happened since I was there.

Senator BROOKHART. If New York does not get too uneasy we will go into that before we get through.

Senator WAGNER. I am not uneasy. I just want to be sensible about this; that is all. I want to confine it to the subject that is before us, and not ramble all over the world.

Senator BROOKHART. Is there anything that is not material to the operation of this system that I have inquired into on any subject, Senator?

Senator WAGNER. You do not want my opinion on that. You would not like it.

Senator BROOKHART. Yes, I think I would.

There is one other general proposition I want to inquire about. I have here a chart of the Cleveland Trust Co. showing that in the last 50 years we have had eight major depressions in the United States. Look at it if you desire. The Federal reserve system was designed to stop those depressions by a proper control of credit, was it not?

Mr. MEYER. In the last how many years did you say, Senator?

Senator BROOKHART. 50 years.

Mr. MEYER. Of course you do not want to say that the Federal reserve system had anything to do with the depression of 1884, which was 30 years before the organization of the system.

Senator BROOKHART. No; but that is one of the reasons for enacting the Federal reserve law creating the Federal reserve system.

Mr. MEYER. Or even 1895.

Senator BROOKHART. That is another argument for it.

Mr. MEYER. Which also was 20 years ahead of it; or 1904.

Senator BROOKHART. That is another argument for it.

Mr. MEYER. And 1907.

Senator BROOKHART. That is another argument for it. If it had worked out to the benefit of the country, it would have stopped those depressions, would it not?

Mr. MEYER. It would be very fine if we could achieve the ideal of stability and perfect balance; but the question is how to do it.

Senator BROOKHART. But since the establishment of the Federal reserve system we have had the two greatest depressions of all, have we not?

Mr. MEYER. They were all apparently in proportion, on this chart, in their magnitude.

Senator BROOKHART. According to that chart, we spent nearly half our time in the last 50 years getting into and out of depressions.

Mr. MEYER. We have spent quite a little of it.

Senator BROOKHART. And during the Federal reserve period it was just about as bad, maybe a little worse than the average.

Mr. MEYER. Yes. Of course the Federal reserve had to contend with the biggest economic disturber of stability in the shape of a great World War.

Senator BROOKHART. But was not the United States profiteering out of the World War?

Mr. MEYER. I should think not.

Senator BROOKHART. It was not hit by the World War like the other countries, was it?

Mr. MEYER. I think it was, Senator.

Senator BROOKHART. We went in a debtor nation and came out heavily a creditor nation.

Mr. MEYER. We came out with some credits. I do not know what progress would have been made by the United States under conditions of peace between 1914 and 1930. I can not help but believe that we would be in this country, as in all countries, very much better off in every way if there had been no war. I do not believe that war brings profit to anybody; and I think that was one of the great lessons of this war, that the winners lost. I think it is one of the great deterrents of war in the future, that this war did demonstrate that the winners lose and the losers lose.

Senator BROOKHART. You can not say anything against war that will offend me.

Mr. MEYER. I do not want to say anything that would offend you.

Senator FLETCHER. You would agree with Doctor Butler, that nobody won?

Mr. MEYER. I certainly would. What was the use of the cattlemen making a little money for a few years if they went broke at the end of the peak? The cattleman would have been better off going along quietly.

Senator BROOKHART. That has been the trouble about all these financial schemes to help the farmer. They have all been inadequate and temporary and, in the end, instead of helping they have hurt.

Mr. MEYER. I think Congress did the best it could. I do not want to criticize Congress. It spent a great deal of time trying to help.

Senator BROOKHART. Some of these Democrats have got me convinced that it could have been done better.

Senator WAGNER. You and I agree now.

Mr. MEYER. I do not think we ought to be too hard on Congress. I think it did the best it could in a sincere and honest way. There never was more willingness to help agriculture than was displayed in the last 10 years.

Senator BROOKHART. How long did you run the War Finance Corporation?

Mr. MEYER. The Agricultural credits act was passed in 1921, in August. It took a little time, naturally, to organize, and the real active period of lending was for about a year or a year and a half. Then the intermediate credit act was passed by the Congress with the view of doing in a permanent way what the corporation had done in a temporary way during the emergency.

Senator BROOKHART. In 1923?

Mr. MEYER. In the spring of 1923.

Senator BROOKHART. You mentioned doing something in the way of credits with cotton in the South before you became Commissioner of the Federal Land Bank.

Mr. MEYER. That was in 1926.

Senator BROOKHART. And who was it you worked with in that operation?

Mr. MEYER. With the Intermediate Credit Banks.

Senator BROOKHART. With what person?

Mr. MEYER. Mr. Williams, who was then Farm Loan Commissioner. He was acting with the Farm Loan Board as a whole.

Senator BROOKHART. Mr. Williams went out with you?

Mr. MEYER. He went out on the trip.

Senator BROOKHART. To organize that pool?

Mr. MEYER. Simply to carry out the policy of the Federal Farm Loan Board——

Senator BROOKHART. That was the big $200,000,000 cotton pool?

Mr. MEYER. $160,000,000 was made available by those organizations potentially.

Senator BROOKHART. Mr. Williams has been friendly in all of these financial affairs with you, has he not?

Mr. MEYER. I do not know that I would characterize such relations as friendship.

Senator BROOKHART. You have worked together. You two have agreed. He has followed your policy all the time.

Mr. MEYER. I do not think so.

Senator BROOKHART. In what respect did he ever——

Mr. MEYER. When you say he followed my policy, that was not the situation. Mr. Williams and the whole Farm Loan Board, consisting of six members, arrived at an understanding with the president's commission as to what they were willing to do.

Senator BROOKHART. Several of them were removed?

Mr. MEYER. Not at that time.

Senator BROOKHART. Well, a little later?

Mr. MEYER. In 1927.

Senator BROOKHART. In 1927 they were removed?

Mr. MEYER. I did not say that. They resigned.

Senator BROOKHART. You came in in their place, you and Mr. Cooksey and Mr. Harrison, and Mr. Williams stayed on the board clear through?

Mr. MEYER. Yes.

Senator BROOKHART. When was it these prosecutions began against some officers of the Joint Stock Land Bank?

Mr. MEYER. I don't know exactly.

Senator BROOKHART. That was during the time you and Mr. Williams were making these arrangements?

Mr. MEYER. No.

Senator BROOKHART. It was just before you went in?

Mr. MEYER. That may be, but I think it was after our cotton trip, which, however, had nothing to do with it.

Senator BROOKHART. Among those prosecutions was that of Guy Huston of the Minnesota Joint Stock Land Bank?

Mr. MEYER. Yes.

Senator BROOKHART. And then you continued that prosecution after?

Mr. MEYER. I continued no prosecution. I made no prosecution.

Senator BROOKHART. Mr. Williams did?

Mr. MEYER. He made no prosecution.

Senator BROOKHART. He went to the trial in the lower court?

Mr. MEYER. He was a witness, perhaps. I don't recall about that.

Senator BROOKHART. He stayed all through it.

Mr. MEYER. I can not tell you a thing about it. It did not interest me very much, Senator.

Senator BROOKHART. You know the officer in the Department of Justice who was sent out to investigate that case reported that there was no case?

Mr. MEYER. I did not know anything about it, Senator.

Senator BROOKHART. A man from down here urged that somebody else be sent out in his place?

Mr. MEYER. I can not tell you a thing about it.

Senator BROOKHART. And then after Mr. Huston was tried—

Senator WAGNER. Senator, Mr. Meyer said he did not know anything about it. Do you think it is fair to pursue the matter when he says he does not know anything about it?

Senator BROOKHART. All this occurred during his administration.

Senator WAGNER. He has told us that he does not know anything about. it.

Senator BROOKHART. You do not know anything about the Huston trial at all?

Mr. MEYER. Very little.

Senator BROOKHART. What do you know about it?

Mr. MEYER. I did not interest myself in criminal prosecutions. Those were matters for the Department of Justice.

Senator BROOKHART. After his trail you know that he appealed to the Circuit Court of Appeals and they unanimously held that there was no substantial evidence of any criminal acts at all?

Mr. MEYER. I know he was convicted in one court and acquitted in another.

Senator BROOKHART. But you do not know which court did the acquitting?

Mr. MEYER. I could not tell you the name of the court. I am not a lawyer and I am not very much interested in those things.

Senator BROOKHART. That sort of a prosecution against an innocent man would discredit the joint stock land bank, would it not?

Mr. MEYER. He was convicted in one court and acquitted in another.

Senator BROOKHART. He was acquitted by the court that had the authority to acquit, the higher court.

Mr. MEYER. He was prosecuted by the authority of the Department of Justice for reasons which were referred to the department before I came into the system. I had nothing to do with it and took very little interest in it, because I was very busy trying to do something constructive.

Senator BROOKHART. Mr. Huston was president of the Joint Stock Land Bankers Association, was he not?

Mr. MEYER. At one time.

Senator BROOKHART. He was at the time this prosecution was taken against him, was he not?

Mr. MEYER. He may have been; I don't know.

Senator BROOKHART. And was the most prominent banker, you might say, in the Joint Stock Land Bank System?

Mr. MEYER. He may have been.

Senator BROOKHART. And to discredit him would tend to discredit the whole system, the governor and the others, very likely, would it not?

Mr. MEYER. The legal proceedings, as I remember it, were brought while Governor Cooper was there.

Senator BROOKHART. Not with Governor Cooper's consent, because he appeared as a witness for him.

Mr. MEYER. He may have appeared as a witness for him later, but those transactions were referred to the Department of Justice, I assume by the Farm Loan Board, while Governor Cooper was a member of the board.

Senator BROOKHART. They were referred by Mr. Williams.

Mr. MEYER. I do not imagine any member of the board could have acted alone. I do not know a thing about it, but I do not imagine that was possible.

Senator WAGNER. Does not the Department of Justice determine upon the facts presented, whether there is ground for prosecution? Is not that its responsibility?

Senator BROOKHAFT. Sometimes they do. In this case they sent the best man in the department out and he reported there was no case, and should be no prosecution, and then they turned around, got another man, and sent the prosecution through anyway, and the circuit court of appeals held, after the most exhaustive investigation, that the first Department of Justice man was right, so that it looks like there was some ——

Senator WAGNER. That is an indictment against the Department of Justice, is it not?

Senator BROOKHART. In part, yes.

Mr. MEYER. I referred no case for prosecution, as far as I can remember, while I was commissioner, to the Department of Justice, about Mr. Huston.

Senator BROOKHART. Then you sent the Milwaukee Bank into receivership.

Mr. MEYER. The Milwaukee Bank was practically bankrupt when I took office.

Senator BROOKHART. I have the statement of your receiver here for that bank, and it seems to me that it was a case of forced bankruptcy, because there was not a great deficit, even after all the charging down of everything. So, that would discredit the system and reduce the bond values and everything again, would it not?

Mr. MEYER. If a bank was in a bankrupt condition, it would not be helpful; but letting a bank get into that condition is the real trouble, not the receivership.

Senator BROOKHART. In that case you rushed in and brought suit to recover an assessment on the stockholders.

Mr. MEYER. I did not do it. The Federal Farm Loan Board made the assessment. You keep talking to me as though I were the whole board. I was not.

Senator BROOKHART. I think you were pretty nearly the whole board.

Mr. MEYER. I disagree with you. In fact, I know more about it, perhaps, than you.

Senator BROOKHART. I think you do, too.

Mr. MEYER. I know that I was not the whole board.

Senator BROOKHART. I think they followed you like good little boys, all of them.

Mr. MEYER. I do not know why they should.

Senator BROOKHART. Then, this suit was reversed by the circuit court of appeals for those assessments. Do you remember that?

Mr. MEYER. I think the Supreme Court decision denying the power of the Farm Loan Board to assess came after I left the board.

Senator BROOKHART. On the appeal, I believe it did. I believe the lower court was against you, too. I am not sure about that.

Mr. MEYER. The circuit court of appeals, in a unanimous decision, had held that the power to assess was vested in the board. I am not sure what Congress meant by putting a double liability in the law if it did not intend that the board should collect it. Senator Fletcher, did you have in mind when the farm loan act was passed, and you put in the double liability, that the Farm Loan Board would collect that liability, or not?

Senator FLETCHER. The intention was that they should collect all liabilities.

Mr. MEYER. They should collect all liabilities, and that liability of the shareholders of joint stock land banks was one of the liabilities.

Senator BROOKHART. There was no liability in this case, the court decided.

Senator FLETCHER. I would say in that connection that I rather differ with Mr. Meyer in putting the responsibility on the Farm Loan Board or on the Department of Justice in ordering these prosecutions. My impression has always been, frankly—I do not know that I can prove it, and I do not know that you know it—that the Treasury Department was back of all that prosecution. Mr. Dewey sat in with your Farm Loan Board. He was sent there by the Secretary of the Treasury, and without direction of the Farm Loan Board or its knowledge Mr. Dewey closed up five joint stock land banks. He put examiners in five of them on one day, the same hour, the same day. Mr. Dewey was representing the Treasury. I rather think it was the Treasury Department that inaugurated the prosecutions and insisted on their being pursued. What purpose they had, I do not know, except that they might have thought they were reforming and directing these banks along proper lines, but certainly no commercial banking system in the world could stand an assault of that kind. The Treasury stepped in, through its agents and examiners, and closed up absolutely, at the same hour on the same day, five joint stock land banks. I think the Treasury, and not the Farm Loan Board, was responsible. The Farm Loan Board knew nothing about it until after it was done. There was no law to warrant this.

Mr. MEYER. I think none of the prosecutions against Mr. Huston were referred to the department by me, because it all happened before I was there and I knew nothing about it. When the Department of Justice takes a course of action, I do not think I should interfere with it.

Senator FLETCHER. I may say frankly to you, in that connection, that I opposed the putting off of Cooper, Landis, and Jones, and substituting three other men from the Treasury in their places on the Farm Loan Board. Mr. Williams came from the Finance Corporation. Cooksey and Harrison and Mr. Meyer came from the Finance Corporation. It seemed to me that it was placing the Farm Loan Board and the entire system under the domination of the Treasury, and that, I did not think, was the proper thing to do. It destroyed the independent character of that bureau as Congress created it.

Mr. MEYER. I want to say that so far as we were concerned in the board, the Treasury never told us what to do, or interfered with us, or attempted to direct us. We did the best we could, and I think we did a good job. The letters I read to the committee here from presidents of the Federal land banks, and presidents of joint-stock land banks, and many others which I did not read, testified to the beneficial effects of the administration that we tried to give it. I have no desire to critize my predecessors there, as I said, but the system was not in good shape at the time.

Senator BROOKHART. You yourself were in consultation with Mr. Dewey all the time, were you not?

Mr. MEYER. All the time?

Senator BROOKHART. Well, yes; even before you went into the board?

Mr. MEYER. He used to come occasionally to see me about things, but, of course, I was not in consultation with him all the time.

Senator BROOKHART. He and Mr. Mellon joined with you in the plan to get you in the board.

Mr. MEYER. He may have discussed the matter with Mr. Mellon; I do not know about that. He did not join me in any plan to get me on the board. As a matter of fact, I was asked to go on the board at one time, and refused.

Senator BROOKHART. Dewey was the man that asked you.

Mr. MEYER. No.

Senator BROOKHART. Who was it that asked you?

Mr. MEYER. Mr Mellon asked me whether I would consider going there. Mr. Dewey did not ask me; he had nothing to do with that.

Senator BROOKHART. You and Mr. Mellon were in perfect accord in the management of this system, were you not?

Mr. MEYER. I did not discuss all matters with Mr. Mellon after I went in there. I talked with him occasionally about the situation in a general way, but he never came to a meeting of the Farm Loan Board as far as I remember. I do not think we had any meetings in his office. We may have once or twice, about some matter. Mr. Mellon was very glad not to have to hear so much about the Farm Loan Board, and of course, he was busy about a lot of other things.

Senator FLETCHER. That has been my fear. I am afraid the Treasury is not friendly to the system, particularly the joint stock land banks.

Mr. MEYER. The Treasury desires to see the system prosperous and strong, Senator.

Senator FLETCHER. Do you think so?

Mr. MEYER. Absolutely. I have every confidence in it.

Senator FLETCHER. I hope you are right.

Mr. MEYER. I am quite confident that the attitude is friendly and helpful in every possible way.

Senator BROOKHART. Then, as a result of——

Mr. MEYER. They cannot have any other attitude.

Senator BROOKHART. As a result of your new administration and the improvements in administration, what happened to the value of the bonds, both in the land banks and in the joint-stock land banks?

Mr. MEYER. Your question is not a fair question, Senator, in the form you put it. There were many things in the developments of the last few years besides the administration which contributed to the market value of the bonds.

Senator BROOKHART. They declined all the time you were managing it.

Mr. MEYER. In the fall of 1927 there was no decline in Federal land bank bonds. Beginning in 1928 there was a decline not only in the bonds of the land bank system, but all other bonds, including Government bonds, industrial bonds, railroad bonds, and every other kind.

Senator BROOKHART. The land bank system bonds declined far more than these others.

Mr. MEYER. Some of them did, and some of them did not. I think, taking them all in all, that the Federal land bank bonds did not. Some of the bonds of joint-stock banks that were in bad condition declined very greatly.

Senator FLETCHER. I think the Federal land bank bonds have held up pretty well.

Mr. MEYER. I am glad to hear you say that. I think they have held up remarkably well, considering how much hammering the system has gotten from its friends, as well as its enemies.

Senator FLETCHER. It has some enemies, all right, do you not think so?

Mr. MEYER. I do not think that the opposition of the people who fought the organization of the system, the old-line mortgage bankers, is in evidence. I could not see any signs of it. Certainly the Treasury Department has no motive or desire other than to see the system strengthened and prosperous. It is an important responsibility of the Treasury Department. Mr. Mellon is chairman, ex officio, of the board. How he could be helped in his responsibility for a successful administration by any harm coming to the system, and how he could help from benefiting by any improvement in the system, is difficult for me to see.

Senator FLETCHER. Large financial interests opposed the organization and have opposed it more or less ever since.

Mr. MEYER. Yes; that was in the old days, in the beginning, but there have been $1,800,000,000 of bonds sold to investors by large financial organizations. That is what got the money for the farmers at these low interest rates on the long-time amortization plan and, of course, the loans made by the system had the effect of reducing the rates of interest on the loans made by other lenders.

Senator BROOKHART. Do you consider the interest rates the farmers have had to pay as low?

Mr. MEYER. They were lower than they paid previously.

Senator BROOKHART. Yes; they were lower, but does that mean that they were down where they ought to be, or anything of the kind?

Mr. MEYER. Money is a thing you have to do the best you can with. You can not dictate the rates entirely.

Senator BROOKHART. Supply and demand governs credit in somewhat the same way as it governs other things, does it not?

Mr. MEYER. Somewhat.

Senator BROOKHART. If we had kept our vast credit that we loaned abroad, or even a large fraction of it, in the United States, there would have been such a supply of credit here that the interest rates would have gone way down, would they not?

Mr. MEYER. It is very hard to say what would have happened if other things that did happen had not happened. I am inclined to agree that we loaned too much money abroad in 1927 and 1928. I thought so at the time. But I do not know that my opinion on that subject is very expert. I was merely an observer.

Senator BROOKHART. You do know that the farmers could not even afford to pay the rates of interest that were charged by the Federal land banks and joint-stock land banks.

Mr. MEYER. I think they must have thought they could; otherwise they would not have borrowed the money, Senator,

Senator BROOKHART. They thought they could, but they could not, just the same; and that is the reason the bonds have declined and all these foreclosures have occurred.

Senator FLETCHER. Bankers generally over the country rather opposed the founding of the system, but I think the system has been helpful to bankers. It has relieved them of a lot of loans that it was not proper banking to make. They were taken over by the farm-loan system, so that I do not imagine that that opposition exists now.

Mr. MEYER. I should not think so, Senator.

Senator BROOKHART. What happened to the volume of loans while you were the head of the system?

Mr. MEYER. I have not the figures in mind, Senator. I imagine the demand was somewhat less in 1927 and 1928 than it had been in previous years.

Senator BROOKHART. And the volume actually declined.

Mr. MEYER. It may have declined somewhat. I should rather think the demand was less. Of course, the income from amortization payments has been increasing, so that the lending power of the land banks, out of their own money, is probably higher than it ever was. I think I mentioned that the amortization and other principal payments in the case of the Federal land banks runs about $50,000,000 a year; in other words, approximately that amount is available for relending out of their own income.

Senator BROOKHART. What were the foreclosures?

Mr. MEYER. I could not tell you offhand. I do not know.

Senator BROOKHART. In the intermediate credit bank what was the largest amount of loans you ever made at one time?

Mr. MEYER. The volume was about $80,000,000; somewhere between $80,000,000 and $85,000,000. I think it is more now.

Senator BROOKHART. The authorized amount was $660,000,000.

Mr. MEYER. I do not know that you would be able to float debentures for $660,000,000.

Senator BROOKHART. You were authorized to.

Mr. MEYER. Yes. I do not know that you could, though.

Senator BROOKHART. What happened to the volume of those loans?

Mr. MEYER. They were about the same during that period as they had been. I think they are a little higher now. I do not think the volume is always the critical question. I do not agree with the idea that service to a farmer is dependent on how much you can get him to borrow. I would like to see the farmers have less debt, borrowing less. The land-bank system is not framed, with these amortization loans, with any other idea than to get the farmers out of debt. The farm-loan system has a good many cases where loans are repaid in full and the farmers are out of debt. I do not think that is a bad thing for the farmers.

Senator BROOKHART. You do concede the necessity of a credit, and a big credit, in marketing farm products?

Mr. MEYER. I object to the word "concede." I have always claimed they need it.

Senator BROOKHART. If they need it, then we have to have a credit system that will furnish it adequately, have we not?

Mr. MEYER. I think they get a great deal of money from banks, through loans of deposits of banks.

Senator BROOKHART. Do you think the 7, 8, and 10 per cent they have to pay in the banks represents an adequate credit system for agriculture?

Mr. MEYER. I do not think it is satisfactory. I do not think the banking system in many country districts is satisfactory.

Senator BROOKHART. It does not fit agriculture at all, does it? It is built on a commercial plan.

Mr. MEYER. It does not, in my opinion, offer a sufficiently strong banking background for the agricultural needs of the country. I am not saying this now for the first time. I have said it for years.

Senator BROOKHART. This quick turnover idea of the commercial banking system does not fit agriculture at all, does it?

Mr. MEYER. That is the reason the intermediate credit banks were organized.

Senator BROOKHART. What is their longest term?

Mr. MEYER. They can lend for a year and renew for two years. They can lend actually for three years.

Senator BROOKHART. But they do not lend to farmers at all.

Mr. MEYER. They lend to the cooperatives, and they lend to livestock loan companies and agricultural credit corporations, but they have not developed much business with banks. When you go into examining why the intermediate credit banks have not succeeded in building up much business with the country banks, which was contemplated at the time, there are various opinions as to the reasons. One reason is the limitation on interest rate that the discounting bank can charge on the spread. That has been suggested as one reason. Other reasons are that they borrow from correspondent banks, and some of them are members of the Federal reserve——

Senator BROOKHART. That puts the farmers right back to their original loans with the banking system as it is, with its quick turnover rules and high interest rates.

Mr. MEYER. I do not think the country banks insist on quick turnover rules, Senator. They are familiar with the business. They do not lend a farmer with the idea that is he going to pay them in 90 days. They are not quite as stupid as that.

Senator BROOKHART. Bank examiners have closed several national banks in Iowa in the last few months because their assets were not liquid. If the farmer's note had to be renewed two or three times, it had to be charged off or collected.

Mr. MEYER. A note may be good or bad.

Senator BROOKHART. Whereas, if it were a 30 or 40-year bond from New York, that was liquid.

Mr. MEYER. I can not discuss those cases. I know nothing about them. The examiner may have been right or he may have been wrong.

Senator BROOKHART. Do you take the position that assets ought to be held liquid when they are made up largely of these long-time investment bonds?

Mr. MEYER. There has to be some liquidity in a bank, because, if you are a depositor in a bank and you want your money, you have to be paid, and they have to get that money somewhere. If they have loaned it to somebody who does not pay it back, and they can not get it, how are they going to pay you, Senator?

Senator BROOKHART. That was not the question I asked you.

Mr. MEYER. I am asking you.

Senator BROOKHART. I am not on the witness stand. I will decline to answer just now, but I will ask you to answer my question.

Mr. MEYER. I am not fencing with you, but really, Senator, the depositors sometimes want their money.

Senator BROOKHART. I asked you this question, whether or not the rule of the Federal reserve, or the policy, should be to hold long-time bonds that are not due for 30 or 40 years, to be liquid, when the farmer's note, which has to be renewed, will not be held liquid?

Mr. MEYER. A 40-year United States Treasury bond, let us say, can be sold, any hour of the day. That would be liquid.

Senator BROOKHART. Take the investment trust bonds of New York.

Mr. MEYER. It may be 40 years——

Senator BROOKHART. I am not talking about United States bonds, either. We will eliminate those.

Mr. MEYER. I am just talking about bonds. Bonds that can be sold are liquid, at the price at which they can be sold.

Senator BROOKHART. On the stock exchange market.

Mr. MEYER. The investment market, or anywhere.

Senator BROOKHART. Are you a member of the Stock Exchange?

Mr. MEYER. No.

Senator BROOKHART. Have you ever been?

Mr. MEYER. Yes.

Senator BROOKHART. When did you quit?

Mr. MEYER. Some years ago.

Senator BROOKHART. When?

Mr. MEYER. I don't remember the exact year. I sold my seat, I think, in 1922 or 1923.

Senator BROOKHART. How long had you been a member of the Stock Exchange?

Mr. MEYER. From 1901 on.

Senator FLETCHER. Mr. Meyer, may I ask you just one question? I do not know whether you want to answer it or not. It is a little aside. It goes into the banking situation more particularly. I want some information on the subject. You have alluded to the condition of the country banks, the rural banks, where so many failures have occurred in recent times. Are you inclined to think that the small-town bank or the country bank, as an independent institution, is rather fading from the picture?

Mr. MEYER. No; I did not say that, Senator. I said that in some States there were too many small banks in one small town.

Senator FLETCHER. I think that has been the case.

Mr. MEYER. This banking situation is being considered, you know, by a special subcommittee, and I am attending those hearings very regularly. I am listening to the testimony and the evidence that is brought out with a great deal of care and attention, and trying to learn all I can from the witnesses. The Federal reserve system has some studies going on in connection with the general banking situation, and they are rather comprehensive. They are trying, at least, to be thorough.

I have not any general opinions, or conclusions rather, about the various theories. I think that there is a lot to be said for the unit system. You see the developments in the other direction, and some people think that branch banking, or chain banking, or group banking, is more modern and better. I do not agree or disagree with any of these theories because I am listening with an open mind, and I want to learn a lot more about the whole situation before I come to any conclusion for myself. When I do——

Senator FLETCHER. Do you know what the Comptroller of the Currency said?

Mr. MEYER. I heard what he said; yes.

Senator FLETCHER. I did not know whether you concurred in that view or not.

Mr. MEYER. I do not accept anybody's view, Senator, just because he has it. I think the Comptroller has had very unusual opportunity to judge the situation, of course, but I can not accept his conclusions for myself when I have so much to learn about it from all these witnesses and all these studies that are going on.

Senator BROOKHART. Have you studied the systems of rural credits in other countries?

Mr. MEYER. Somewhat; not in detail.

Senator BROOKHART. They are on a different basis entirely from the commercial banking basis, both as to short-time loans and real estate loans.

Mr. MEYER. In some countries they are.

Senator BROOKHART. In most of them.

Mr. MEYER. I made a few inquiries. I have never had occasion to sit down and study it.

Senator FLETCHER. What contact with the security market should the Federal Reserve system maintain?

Mr. MEYER. It only maintains a contact with the security market in accordance with the provisions of the act. It lends on Government bonds, 15 days, and it buys and sells Government bonds, depending upon the policy determined by the banks, if approved by the board.

I am talking about operations under the law. Do you mean what my opinion is on the general theory?

Senator FLETCHER. Yes.

Mr. MEYER. I have not any opinion about that yet, Senator. I am thinking about these things. Those are the questions that are coming up before the Glass committee, which is accumulating a great deal of interesting testimony.

Senator CAREY. I think we should have an executive session for a few minutes before we adjourn.

(Whereupon, at 5.40 o'clock p. m., the subcommittee went into executive session.)

# NOMINATION OF EUGENE MEYER TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

**TUESDAY, FEBRUARY 3, 1931**

United States Senate,
Subcommittee of the
Committee on Banking and Currency,
*Washington, D. C.*

The subcommittee met, pursuant to adjournment on Monday, February 2, 1931, at 2 o'clock p. m., in the committee room of the Senate Committee on Military Affairs, Capitol Building, Senator Robert D. Carey presiding.

Present: Senators Carey (chairman of the subcommittee), Goldsborough, Brookhart, Wagner, and Fletcher.

Senator Carey. The committee will please come to order.

## TESTIMONY OF EUGENE MEYER, GOVERNOR OF THE FEDERAL RESERVE BOARD—Resumed

Senator Brookhart. Mr. Chairman, on yesterday there was some little controversy between myself and Senator Reed over the Mellon incident and the Mellon philosophy, and I want to straighten that out absolutely first. The newspaper boys got it mixed a good deal in their report. So I got a photostatic copy of the issue of the New York Times of Thursday, February 18, 1926, and here is the statement:

R. B. Mellon Optimistic,

is the big head line, and the little one is,

Banker says 1926 should be a year of phenomenal prosperity.

Then the text says:

Richard B. Mellon, president of the Mellon National Bank of Pittsburgh, who sailed yesterday on the *Mauretania*, for a Mediterranean cruise, said that from present indications he expected the business year of 1926 to be better than 1925 throughout the country generally.

Fundamental conditions underlying business are sound and favorable,

He said:

The steel business in the vicinity of Pittsburgh is showing a great improvement over a year ago. Steel rolling mills are operating at greater capacity and railroad orders are coming in in larger volume than at this time a year ago. Grain prices I notice have fallen off, which is as it should be.

The newspaper boys had that twisted around yesterday. They said he quoted grain prices too low, but what he said was,

They have fallen off, which is as it should be.

Then, continuing:

In my opinion, the stock market has not been overbought in view of our phenomenal prosperity, and it should go higher. A few specialties in the market have apparently been overbought, but these conditions have been quickly righted by the market itself. Bank deposits in our section of the country are showing substantial increases over last year, and all reports that I get show that business is thoroughly sound. Clearing up of the coal situation should help the hard coal railroads and they should show greater prosperity than they have for some time. As a whole, I see nothing at all to worry about regarding the business of the country. This should be a year of phenomenal prosperity.

This quotation was first called to my attention by the Senator from Michigan, Mr. Couzens, and I presented it to Senator Reed exactly as I said yesterday. He has forgotten it, and I do not dispute his honesty on that, but the Senator from Michigan remembers it exactly as I do in regard to this whole transaction.

Now, this is important in this connection, Mr. Chairman, because it shows the eastern philosophy; grain prices are lower, which is as it should be. And it is that philosophy and Mr. Meyer's part in it in handling these economic things and bringing about that result that have brought me to this opposition to him.

Senator WAGNER. You do not hold Mr. Meyer responsible for the statement by Mr. Mellon, I understand?

Senator BROOKHART. No, not for this individual statement, but I do hold him responsible for a similar philosophy; and, of course, he said the Secretary, the brother of R. B. Mellon, was the one that first asked him to take charge of the Federal land banks.

Mr. Meyer, the prosperity of the joint stock land banks would be reflected in their bond quotations, their bond prices, would it not?

Mr. MEYER. I do not think the condition of the banks is accurately reflected in the bond prices.

Senator BROOKHART. What measure would you suggest is more accurate than the bond value?

Mr. MEYER. The intrinsic facts and figures which are not always appreciated and understood in the market; the valuations——

Senator BROOKHART. Well, valuations of the land. Is that what you mean?

Mr. MEYER. No; the bonds are based, of course, on the land as security, but I mean primarily the solvency of the bank and the condition of the bank; in general its ability to pay interest and principal on the bonds.

Senator BROOKHART. The value of the land, of course, is dependent upon the prices of the products of the lands?

Mr. MEYER. It is one of the factors. But temporary prices might not affect the value of land so much.

Senator BROOKHART. If they go lower, of course, the value of the land will go lower?

Mr. MEYER. If the products go lower?

Senator BROOKHART. Yes.

Mr. MEYER. If the products go lower permanently that affects the land to a considerable extent, I should think. Of course, some prices are in part lower due to decreased cost of production. In Kansas they say that the cost of growing wheat with the combine has gone down quite a lot.

Senator BROOKHART. So when you figure the decline in the price of wheat you figure it on the cost of production?

Mr. MEYER. No; I do not figure it on that. I just say that if the cost of producing a product is decreased a greater profit can be made at a lower price than if the cost of production were higher.

Senator BROOKHART. If the cost of production increases then the price ought to increase.

Mr. MEYER. It will in the long run.

Senator BROOKHART. Is not the cost of production the real basis for determining what farm prices ought to be the same as in any other business?

Mr. MEYER. In the long run it will be, because if it can not be produced at a profit it will not be produced, and production will decrease and the price advance. We saw that happen in livestock. There was too much livestock. The price went down. It stayed down too long, and too low, and the first thing we knew there was a shortage of livestock and the price went up. I do not like to see those things adjusted that way, but that is what happened.

Senator BROOKHART. That is not what happens to automobiles or aluminum ware or the oil prices.

Mr. MEYER. I can not tell you anything about aluminum ware. I do not know anything about it.

Senator BROOKHART. You have heard of all of these things that I have just mentioned to you, have you not?

Mr. MEYER. Some of them.

Senator BROOKHART. Is it not true that those prices are fixed by the factories that produce them?

Mr. MEYER. Well, I suppose the producers try to set the price, but if they can not get it they have to reduce it sometimes. We have seen factories selling products at a loss frequently.

Senator BROOKHART. Then they discharge their men and quit producing.

Mr. MEYER. They try to reduce production. Of course, they are up against the problem that if they curtail production sometimes costs go up somewhat.

Senator BROOKHART. The farmer can not close down his farm and not run it.

Mr. MEYER. No.

Senator BROOKHART. The world demand for farm products has always consumed them all, has it not?

Mr. MEYER. In the long run; temporarily it may not.

Senator BROOKHART. But in the 5 or 6 years periods they are all consumed, even cotton.

Mr. MEYER. There is always a floating supply of almost all these commodities, except the perishables.

Senator BROOKHART. That is a necessary and a sound thing to have?

Mr. MEYER. I consider it sound.

Senator BROOKHART. And it would not be an unsound situation if the United States had a whole year's supply of wheat on hand all the time, would it?

Mr. MEYER. It would not from one point of view, and from another point of view it could not help, being a depressing factor in the price.

Senator BROOKHART. That would depend upon the policy of holding, would it not?

Mr. MEYER. That is the question in my mind that I have not been able to settle. A very large physical supply in one hand, even a hand as strong as the Government of the United States, I am afraid would have a depressing effect on the prices.

Senator BROOKHART. If the policy were determined and announced and financed so it would not be sold until they got their money back?

Mr. MEYER. I do not know.

Senator BROOKHART. Did not Mr. Hoover actually do it that way in the operation of the Wheat Corporation?

Mr. MEYER. I do not remember the details of that, Senator. I do not believe I ever did know. Of course, war conditions were a little different.

Senator BROOKHART. He bought $535,000,000 worth of wheat at one time.

Mr. MEYER. The Government guaranteed a minimum price for the crop.

Senator BROOKHART. And he announced that he would hold it until he got his money back. There was not any selling on the boards of trade. They never sold a bushel of wheat on futures after he made his first bid.

Mr. MEYER. Was this during the war, Senator?

Senator BROOKHART. Yes. He wrote his letter to President Wilson on the 15th of July, 1917, asking for the Food Administration law. The law was passed on the 10th of August, 1917, and four days later the President appointed his Farm Board. Sixteen days later, on the 30th of August, they completed their deliberations and fixed the price of wheat, just like Ford does the price of his automobiles, at $2.20 per bushel. That is for Chicago No. 1, northern. That same day Mr. Hoover bid that price for all the wheat that was offered; not for any little bite or slice, but for all, and the price went to that level. Later it went to $2.26. They added 6 cents more on when the railroad rates went up, but that was for the railroads and not for the farmers, and he bought and held as much as $535,000,000 worth of wheat.

Then, 1918 came along, in the fall, the war was still not over, and we needed more bread and the President said: "Bread will win the war." You remember the slogan at that time.

The farmers sowed 18,000,000 acres more. Then the armistice was signed. We went through the winter good. On the 1st of March they were predicting a 1,200,000,000 bushel crop of wheat. Eight hundred is about the ordinary crop. A 50 per cent increase. Then Mr. Hoover sent Julius Barnes—you know him, do you not?

Mr. MEYER. I have met him.

Senator BROOKHART. He sent Julius Barnes to Congress. He got a little scared about the matter. Congress had given him only $150,000,000 in cash and authorized him to borrow more money from the banks if they needed it. They came to Congress and asked for a billion dollars on the 1st or 2d of March, 1919, and got it. Congress voted it all without batting an eye.

Then the season was not so good. The yield was cut down. They got 968,000,000 bushels instead of the 1,200,000,000 that they had prophesied the 1st of March.

Mr. Hoover quit the corporation on the 31st of May and Mr. Barnes went ahead and bought 138,000,000 bushels of the 1919 crop, and they maintained the price and stabilized it. They got all their money back and $59,000,000 profit and turned it over to the Treasury of the United States. Mr. Mellon has it down there safely to-day and will not let us have that, because Mr. Mellon's philosophy is that the farm prices ought to go lower instead of higher.

Is not that a sound economic way and the only sensible business way to handle this agricultural surplus in the United States?

Mr. MEYER. I do not know whether that way is a sound or an unsound way, Senator, because those conditions were war conditions; and, of course, I think at that time a good deal of the wheat was being sold to Europe on Government credit. You had a market certainly in 1918, during the war, for almost any amount of wheat in Europe for the armies and for the civil population which was not able to grow wheat.

Senator BROOKHART. Here was the condition from the European side, and it is practically existing to-day: England, France, and Italy, combined together and appointed one buyer for all their wheat, and they decided to bid $1.50 per bushel for No. 1 Chicago northern. That was the principal reason that Mr. Hoover gave for organizing this holding company on this side.

Mr. MEYER. I think during the war they had to concentrate their buying.

Senator BROOKHART. And if it had not been for a holding company, financed to the limit on our side, $1.50 is all the farmers would have gotten for the wheat.

Mr. MEYER. The Canadian pools had a great deal of wheat, Senator. I think they were very strongly supported by the banks, and in some cases by the provincial governments, and they had a lot of wheat—I think at one time a considerable part of a year's supply. They have been liquidating it at a huge loss.

Senator BROOKHART. The head of the Canadian pool has been before the agricultural committee of the Senate and expressed approval of cooperating with an American pool in the same way.

Mr. MEYER. I have an idea that there might be a good deal of merit in the Canadian and American wheat growers cooperating, so far as export wheat is concerned. I have always thought that. Of course, Canadian wheat exports are a great deal more important, so far as quantity is concerned, than ours.

Senator BROOKHART. Yes; that is true now.

Mr. MEYER. I have just received the Canadian production figures for the last 20 years. The years from 1910 and 1915 apparently averaged around 200,000,000 bushels.

Senator BROOKHART. That is our export?

Mr. MEYER. No; this is Canadian production.

For the last five years, from 1926 to 1930, inclusive, the production averaged 431,000,000. With the small population in Canada, that, of course, leaves a very much larger surplus for export.

Senator BROOKHART. But to offset that the Russian production has declined about three-fourths as compared to the time of the Czar.

Mr. MEYER. Now they are entering the export market.

Senator BROOKHART. We have made a big fuss but there was not much wheat.

Mr. MEYER. It has an effect on the market.

Senator BROOKHART. That means that the market condition is unsound if it is going to be affected by all of these unsound rumors, does it not?

Mr. MEYER. It is hard to tell what affects people's minds. They may buy wheat or they may carry a stock of wheat or they may not. Fluctuations in the stocks of wheat in the hands of consumers are very great.

I went abroad in 1923 to look into that very thing. I found that the stocks in Europe in 1923, at the time I was there to study the question, were about 15 per cent of the pre-war normal stocks of wheat.

Senator BROOKHART. Automobile producers do not let that affect their price. They hold right at a steady price and get it.

Mr. MEYER. No; I do not think that is so. I thought last winter that the stocks of automobiles were excessive. In many instances they had to cut the price and move the stock at great sacrifice. I do not think anybody guarantees the automobile industry a price and a profit. I do not think that they think so.

Senator BROOKHART. Well, the economic system gives them a much stronger guaranty than the farmers ever had.

Mr. MEYER. I do not think it gives anybody a guaranty on either side.

Senator BROOKHART. Do you think the farmers have had just as good a chance and just as good credit in the country as industries?

Mr. MEYER. I do not think they did or did not.

Senator BROOKHART. Do you not think that that is a good thing for you to know as governor of the Federal reserve banks?

Mr. MEYER. I do not care to express an opinion on it. When you talk about squareness in discussing these matters, you are putting the question of motive and honesty into a situation with which I think changing conditions at different times have a lot to do. You see, Senator, it gets down to the use of words, to some extent.

You talked yesterday about discrimination. I can not accept that term. You talk now about squareness. I said yesterday that I thought the Congress of the United States, for the last 10 years, has been more agriculturally minded and anxious to help in any sound way that you or anybody else had to propose, which was convincing and acceptable and promised real results, than anybody could expect; surprisingly so.

Senator BROOKHART. Maybe if I could get you to understand what a square deal and what discrimination mean I might not have any opposition to your confirmation, because I think those are pretty important to understand.

Mr. MEYER. I have expressed dissatisfaction with the operation of the financial system in relation to agriculture, but I do not want words put in my mouth by you such as squareness or honesty or discrimination or malicious intent. I think there are more mistakes made than conspiracies conducted, and you insist on making it a conspiracy. I think people sometimes make mistakes that you call conspiracies.

Senator BROOKHART. There are some of both going on.

Mr. MEYER. There may be. I can not say that I know all about everything, but I attach major importance to the mistakes. I think men are more ignorant than you give them credit for being. I think they make more honest mistakes than you think they do, but you say that it is a conspiracy.

Senator BROOKHART. Well, I would think that the philosophy announced by Mr. R. B. Mellon was in the nature of a conspiracy.

Mr. MEYER. I am not interested in his philosophy. I do not consult with Mr. Mellon about these things, and I am certainly not guided——

Senator CAREY. I do not think that you should bring that in, Senator.

Senator BROOKHART. I have as much right to my view on that as you have.

Senator WAGNER. Mr. Meyer did not finish his answer. Mr. Meyer, you said something about not being guided.

Mr. MEYER. Mr. Mellon does not guide me in my opinions, and Mr. R. B. Mellon does not. I do not believe I have seen him twice in my life, and I have never talked with him about the agricultural situation.

Senator BROOKHART. Since 1926 the agricultural situation has steadily grown worse, has it not?

Mr. MEYER. There was a period in 1927 when there seemed to be some improvement, and from the beginning of 1928 until the middle of 1929 the prices of farm products on the average were about stationary.

Just for the benefit of the committee, I have had prepared a chart which may be interesting. I was thinking over our discussion yesterday, Senator, regarding the period of activity by the War Finance Corporation under the power to make agricultural loans, which began on August 24, 1921, and terminated December 31, 1924. During that period agricultural commodity prices did not decline. On the contrary, they advanced. I sent for a chart on the prices of farm products, which is based on the index of the Bureau of Labor Statistics, and I found that on the 1st of July, 1921, shortly before the War Finance activity began, the index price, which is the average as compiled here, was about 87.

Senator BROOKHART. That had dropped down from what?

Mr. MEYER. One hundred and sixty.

Senator BROOKHART. It had gone off 50 per cent right following Federal reserve deflation?

Mr. MEYER. I am talking about the War Finance period of activity. When the authority to make loans expired the price averaged 112. In other words, taking it through the whole period, there was a rise from 87 to 112, although there were minor fluctuations during the period as there always are. I do not want to be in the position of claiming credit for this, Senator, but if it had gone down in the period of the activity of the War Finance Corporation as much as it went up, you certainly would charge me with a great deal of responsibility in connection with it.

Senator BROOKHART. Then following the War Finance you continued in charge of the agricultural financing through the intermediate credit banks?

Mr. MEYER. Not at all. I had nothing to do with it for three and a half years after the corporation discontinued the making of new loans. And I was not in charge of the agricultural situation when I was farm loan commissioner and member of the board supervising the intermediate credit banks. That is only a small part of the situation.

Senator BROOKHART. Well, that is a part of it. Of course, I am not now charging you with all of this blame.

Mr. MEYER. I hope you are not. It would be ridiculous if you did.

Senator BROOKHART. I have something to say about the railroads and the tariff contributing, and even in some cases the Senator from New York agrees with me; but this element in it was a considerable factor.

Mr. MEYER. No; not a considerable factor.

Senator BROOKHART. And the policy of the Federal land banks and the intermediate credit banks has continued the same since you went out?

Mr. MEYER. I do not know anything about them since I left there, about two years ago.

Senator BROOKHART. And prices have gone down, as this chart shows.

Senator GOLDSBOROUGH. Mr. Chairman, I suggest that the chart be put in the record.

Senator CAREY. If there is no objection, it will be incorporated in the record.

(The chart above referred to, headed, "Prices of Farm Products. Index of Bureau of Labor Statistics, 1926–100," appears on following page.)

Senator WAGNER. Senator Brookhart, I do not know what you meant when you referred to the Senator from New York. The Senator from New York voted for every one of the agricultural bills, including the equalization fee.

Senator BROOKHART. He is all right most of the time.

Senator WAGNER. Well, of course, you are right all the time.

Senator BROOKHART. On agriculture I think I am.

Senator WAGNER. I do not want to raise a controversy. Your intentions are sincere; there is no doubt about that.

Senator BROOKHART. Well, I think the same of the Senator from New York.

Senator GOLDSBOROUGH. This is beginning to be pleasing.

Senator BROOKHART. In reference to these Joint Stock Land Banks you went into business of stabilizing them and bringing them back to soundness, and they were getting in a bad way. Was that the idea?

Mr. MEYER. To do what could be done to improve conditions in the bureau and in the banks.

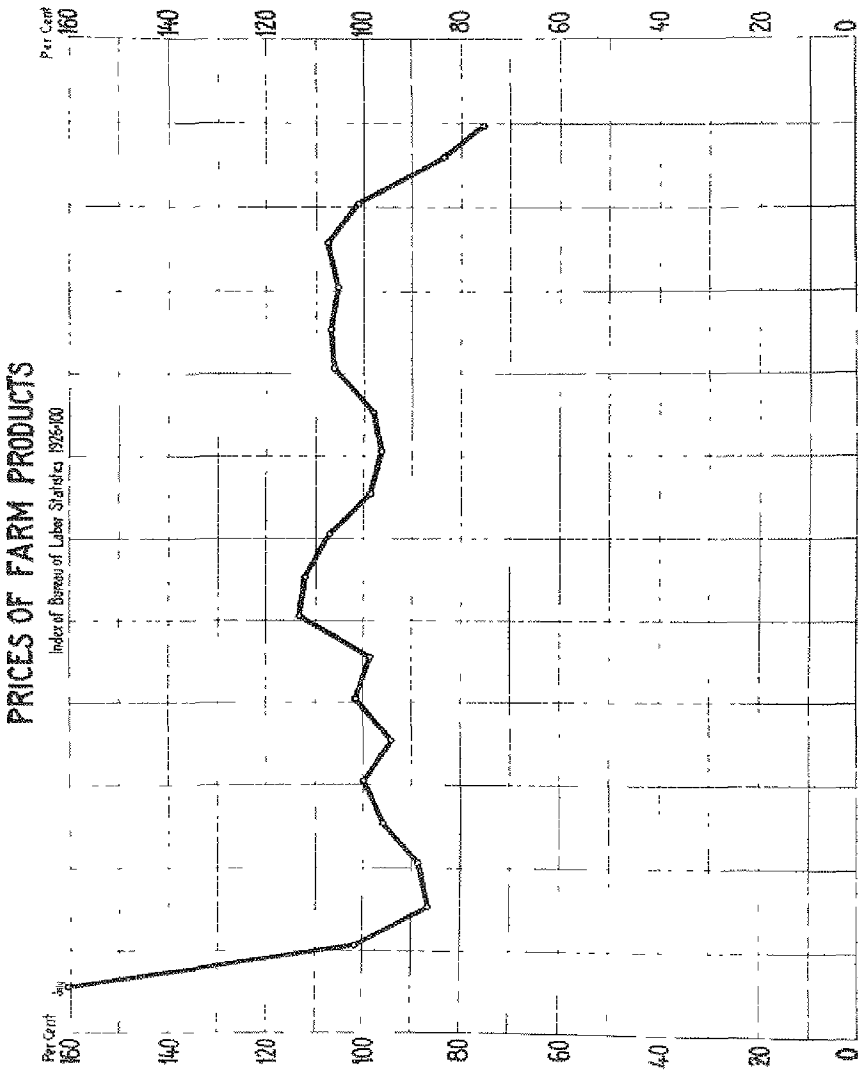
Senator BROOKHART. Then your policy has been continued?

Mr. MEYER. I have no control over the policy, and I have no knowledge of it since I left.

Senator BROOKHART. Are not the men that you put in there still there?

Mr. MEYER. Some of them are.

Senator BROOKHART. Which ones?




Mr MEYER. I do not know. I can not give you a list of the men in the bureau. There are 100 or more people in the bureau here, and a considerable number in the field.

Senator BROOKHART. You know who were on the board?

Mr. MEYER. The board is the same as it was when I left, with the exception of the appointment of my successor, Mr. Bestor of St. Louis.

Senator BROOKHART. That is what I understood.

Mr. MEYER. Well, there is no secret about it, and there is no mystery about it.

Senator BROOKHART. Then I wonder why you could not have admitted it at once.

Mr. MEYER. If you had asked me I would have done so.

Senator BROOKHART. This is a quotation of December 15, 1930: "Atlanta bank, bid 45 and asked 50; and the Atlantic bid 57 and asked 60." The "Bankers CD." What is that?

Mr. MEYER. I do not know.

Senator BROOKHART. Well, they bid 20, and there are two other issues each with a bid of 20 in there. The Burlington. What one is that? Is that Burlington, Iowa?

Mr. MEYER. I do not remember. It might be. I think probably it is.

Senator BROOKHART. Bid 55 and asked 58. Now, as I run down through all of these joint stock land banks there is only one, the First Trust of Chicago, which bid 100 and asked 102, and on another issue bid 97½ and asked 100. Those are the only issues that are at par in any of the banks. Does not that indicate that your co-called efficient management did not get the results that you expected?

Mr. MEYER. It does not. Those prices, to the extent that they do reflect conditions, either largely reflect conditions which were in the banks at the time I went in there but which became more evident later on, or are the result of changes of an adverse character that have occurred in the conditions affecting agricultural products and land values. The drought has been a very serious factor for some of the banks.

Senator BROOKHART. Well, the discontinuance of loans and the forced sales had more to do with that situation than anything else, did they not?

Mr. MEYER. I do not know, Senator. There has been no discontinuance of loans by the banks, so far as I know.

Senator BROOKHART. I mean the new loans.

Mr. MEYER. I do not understand, Senator, that there has been any discontinuance of new loans by the Federal land banks. The joint stock land banks have funds available from amortization and other principal payments that they can use to make new loans or buy their own bonds according to their own judgment.

Senator BROOKHART. Let me see if we can get a little light on that from Mr. Davis and Mr. Beck about whom we have had some talk. This letter that I have here was written from Marion, Iowa, to the Federal Farm Loan Bureau, Washington, D. C.

Mr. MEYER. What is the date of it, Senator?

Senator BROOKHART. It is dated January 8, 1929. You were still there then, were you not?.

Mr. MEYER. Yes. It was written by whom?

Senator BROOKHART. This is written by Mr. Davis's board.

Mr. MEYER. What bank?

Senator BROOKHART. It is the loan association at Cedar Rapids, Iowa.

Mr. MEYER. It is the association?

Senator BROOKHART. Yes. The letter reads as follows:

We as stockholders and members of the Iowa National Farm Loan Association of Linn County, Iowa, beg leave to report that our secretary-treasurer of this association, T. J. Davis, has served this association for 10 years, since its organization.

That to our certain knowledge, he has faithfully advised with not only the loan committee, but seeks advice from different members as to the lands and owners of farms he examines.

He has at our annuals detailed the business of the past year in detail to us as members, and he has this year comprehensively gone over the business of the past 10 years as to every borrower.

Our secretary-treasurer has taken up with the directors and others some of the increasing difficulties he has in completing loans and reviewed the correspondence regarding the same.

With the knowledge that this association has had an enviable record during these years with no delinquent payments, we have a justifiable pride and full confidence in the ability of our secretary to present safe loans.

From reports shown us from time to time and from the complete review given us this day we are impressed with the fact that each year, particularly for the past three years, our applications have been misused by the Omaha office, for we are shown from a recent report of 51 loans submitted that 21 of their own appraisers report were cut as to amount. This shows that our secretary, the three local appraiser reports, as well as the Omaha appraisers reports, were reduced or rejected by the Omaha office.

Now, would not that have a tendency to reduce the land values, that sort of system of appraisal?

Mr. MEYER. I can not remember the letter; maybe I saw it at the time; but there were frequent differences of opinion between associations and banks, which, for the most part, were taken up by the officers of the associations and the banks.

Senator BROOKHEART. But here was an association manager, a man of exceptional ability and exceptional intergrity and exceptional knowledge of all of these things; and yet that is the way his applications are met.

Mr. MEYER. Senator, I cannot tell you about these particular applications, but the Board prabably took that matter up with the bank. What happened to it I can not say from memory now after two years, but you will remember that Mr. Beck had some difficulty with the bank about some of his loans and appraisals. He took them up with me when I was in Omaha, and he wrote you a letter that the matter had been adjusted to his entire satisfaction.

Senator BROOKHART. But he came to me with this same Mr. Davis, and the policy had been revived against him and he was just as much displeased as ever.

Mr. MEYER. You can realize that with twelve banks doing business with over 4,500 associations there is bound to arise some difference of opinion as to valuations. In particular cases, the bank may be wrong and the association right, or vice versa.

Senator BROOKHART. The letters that I have here are from most of the State banks. I see it is everywhere.

Mr. MEYER. But with 4,500 associations operating in the United States you can not expect to have everything work absolutely smoothly.

Senator BROOKHART. But should there be any serious question in an association that for 10 years has never been delinquent and that is jointly liable on the loans that it is proposing?

Mr. MEYER. I do not know the details of the matter sufficiently.

Senator BROOKHART. Would it not appear to a business man that it was sound?

Mr. MEYER. I would be prejudiced in favor of the association if its record was good, but sometimes an association exhausts the good loans in its territory and wants to bring in some that are not so good. Mr. Beck, I happen to know, is highly regarded by the bank, and I understand was not only operating his own association, but was also put in charge of another, showing that they thought very well of him.

Senator BROOKHART. And Mr. Beck was a good man and not any better than Mr. Davis?

Mr. MEYER. He may not have been. I just happen to know Mr. Beck, and I do not know Mr. Davis personally.

Senator BROOKHART. He was a man of wider experience than Mr. Beck.

Mr. MEYER. Probably so; but with 4,500 associations all over the United States, do you think the board in Washington can judge all the details of each of the situations?

Senator BROOKHART. The board graded and classified them and put them on this roll of honor.

Mr. MEYER. No; the bank did.

Senator BROOKHART. And you had that report from the bank at the board.

Mr. MEYER. But the board does not make the loans. It is the bank that makes the loans. As a matter of fact, the board has no power to compel a bank to make a loan if it wants to.

Senator BROOKHART. There is no doubt about that, but it has a very great influence in the system regarding the policy to be followed. Now, let us note some of the facts. This letter continues as follows:

We briefly allude to a few. Mr. Bremers was rejected and every part of his farm showed safety and that he made money. Mr. McCreary. on which our secretary worked for nearly a year, was accepted and then refused after the acceptance, although Mr. Davis had a banker and other make affidavits as to this land, sent in photos, soil analysis, and in fact proved by every method that the farm was a good risk.

This he appealed to Washington, and it would appear that from that time it became more difficult. This year Mr. Penn was reported favorable by the Omaha appraiser and rejected from head office. Mr. J. W. Johnston was cut deplorably. Mr. Wagor to many of us well known, was radically reduced, and the same day a loan of Mr. Etzel was accepted for the same amount per acre and not as good. Mr. Boone, on which much correspondence was carried, was the worst case of malfeasance of all. This man had never mortgaged in his life, had enough stock to pay all he owed, had 260 acres with some $17,000 of buildings and wanted about $40 per acre joining on three other risks not as good who were granted some $65 per acre. Part of his $11,000 asked for was to buy new lands that would be clear. He was cut to $9,500, or about $37 per acre, although the corre pondence shows that it was recommended for full amount by their appraiser. This was lost and the Connecticut Mutual loaned Mr. Boone $12,000 as he decided to build another barn.

Our Secretary was told that this was a poor farm by two members of the home office. Mr. Finnegan was rejected on 160 acres, although he went to Omaha and told them he could get along with $5,000; 115 acres were in crops and 80 acres were safe for the $5,000. All above secured from good companies, the loans and this association lost. Mr. Messner was rejected on a request for $13,000 on a farm he had over $40,000 in on No. 30 and near Cornell College, nearly a picture farm with some pasture, rough but good, balance of farm all plow land.

Mr. Hemphill was rejected for $2,000 on 155 acres, never before mortgaged, because he rented part of this and farmed the balance himself and directly managed as shown by the application.

Mr. Charles McCreary, brother of the other McCreary, was cut to $9,500 from $10,800, and this had been reduced from $4,000 from the original mortgage, $2,000 of which he paid this winter and had in addition spent several thousand in tile, a big barn, cement hog house, and so forth, since his original mortgage. All of which was paid from his farm earnings.

Mrs. Ford was cut from $22,000 to $18,000 on 240 to $18,000, although the N. W. Life was carrying $17,000 on 200 acres of this farm, and we have a loan of $100 per acre as a part of this large estate and did carry $100 per acre on 40 of this same 240.

Mr. L. J. Johnson was cut last week on 140 acres from $11,000 to $10,000, and the same date Mr. Rauch on 176 acres was cut from $13,000 to $10,000, and Mr. Rauch is carrying $10,000 insurance and Johnson only $3,000.

The Rauch land is 35 acres more, $7,000 in insurance and easily worth $25 per acre, more than Johnson's both very safe and desirable loans with big crops on both farms.

Mr. Erien on 192 acres of value of about $32,000 to $33,000 asked for $14,500 and was reduced to $13,500, and by the assistance of the Secretary helping him in accepting the cut.

These three last above all occurred in December last. Many applications reduced in recent years have been completed by the Secretary loaning them the difference.

This is but a small part of the complaints that have led to much correspondence with our secretary, and he has been asked to appeal to the Farm Loan Board for some relief and back of him we stand united as an association.

He has reviewed the interest reductions due to some of us that has been allowed to some and refused to others although his files show that it was promised and then by various contradictory letters was shelved and we have found our Secretary at all times working for the farmers with ever a regard for the safety of loans submitted

We feel that this association has not been used fair and more especially when we are shown that some other secretaries who have equally as good quality have been also so treated while others seem to have success, leading us to the belief that gross partiality has been used against us. We wish to place ourselves on record as upholding him and in the stand he has taken fairly and we also will support him as it now stands in his efforts to secure for us the interest reduction we are entitled to as promised by him in securing our loan and as promised to him by the Omaha officials; this we consider both unfair and not honorable, and from the best authority we can find, is not legal.

We dislike to enter this protest, but it is either do this or lose not only our secretary but also our own pride in the working of the splendid Federal land system.

We are even told by officials that an appeal to Washington is of no avail as Congress has nothing to do with the Federal land banks which we have always supposed were promoted and protected by Congress.

This and much more could be given from the letters and files shown us, and it is with full knowledge and proof of these matters that we subscribe to this and recommend its following up with the authorities who surely will be fair and impartial.

Signed:

C. I. MITCHELL.
MARTIN LUTHER.
GEO. R. R. TOURE.
CLARENCE MARTIN.
E. M. ROBSON EST.,
By R. F. ROBSON.
EDWIN HALSTEAD.

C. R. HAWK.
FRED SNYDER.
D. C. HAMPTON.
ELMER YOUNG.
H. N. ROCKWOOD.
MRS. JULIA BOOTH.

Mr. MEYER. When did you get this, Senator? Did you get it at the time?

Senator BROOKHART. No; it was brought to me by Mr. Beck and Mr. Davis.

Mr. MEYER. When was that?

Senator BROOKHART. I could not remember the date. I might be able to find it.

Mr. MEYER. Was it after I had resigned on May 10, 1929?

Senator BROOKHART. I rather think it was before that, but it continued on after that.

Mr. MEYER. Of course, with 4,500 associations, it is impossible to remember them all. Any matter of that kind that came to me at the time I tried to give proper attention to. Sometimes I would be away when a thing like that would come in. Sometimes it would be dealt with by the bureau, but I am sure that the bureau was endeavoring to see that the relations between the associations and the banks were smooth and that the system was functioning. Occasionally friction developed, and, of course, the bank or the association, or both of them, might be at fault. In this matter, Senator, I would like, if you will and if you are interested, to send to the bureau and find out what it was all about and what was done about it.

Senator BROOKHART. I did have it up with the bureau later.

Mr. MEYER. I do not believe that you took anything of that nature up with me while I was there.

Senator BROOKHART. I think it was after you had gone, but not long afterwards that I took it up.

Mr. MEYER. Those things develop in a system doing an enormous business all over the country; and, of course, the bureau does what it can to improve the organization and the working of it.

Senator BROOKHART. When I get those things and similar things that I have here from many States, and then when I see that the farm loan system has supplied only one-eighth of the demand, that looks to me like it had been worked as a system and as an idea all through the system.

Mr. MEYER. Well, it is not an eighth of the demand. It is one-eighth of the total amount of the farm mortgage indebtedness.

Senator BROOKHART. There was a demand for all of those loans.

Mr. MEYER. They did not all come to the land bank system, of course.

Senator BROOKHART. I know of nothing that will injure land value more than that sort of a lending system.

Mr. MEYER. I do not remember that you ever took up with me while I was there a single thing connected with the bureau.

Senator BROOKHART. The things began to come to me about the time you quit.

Mr. MEYER. I am sure that the bureau would be very glad to hear from you in every case about which you receive a complaint and to go into it most carefully and conscientiously and let you know what the trouble is, if there is any trouble. Both sides of these questions have to be heard.

Senator BROOKHART. These men write a letter that ought to have attention without a United States Senator bothering about that.

Mr. MEYER. But if you bring in complaints that you get, I am sure that the bureau would take them up and study them and perhaps give you some information which may explain them. They may also get some information by which they can improve the operation of the system.

Senator BROOKHART. In this same quotation on the Federal land bank bonds I found 4's in May, bid 85 and asked 88; 4's in November, bid 85 and asked 88: 4¼'s July, bid 86 and asked 88½. There is only one up to par. December, bid 100 and asked 100⅜.

Was it not this restriction policy, together with forced sales of land, that brought that about?

Mr. MEYER. Not in my opinion. All bonds went down between May, 1928, and May, 1929, including Treasury bonds. United States Government bonds—long time bonds—went down something like 10 per cent.

Senator BROOKHART. Then you put on a system of having the joint stock land banks—I do not know how this is as to the Federal Land banks—buy in their own bonds and resell them——

Mr. MEYER. I put on no system.

Senator BROOKHART. They did that.

Mr. MEYER. They have authority to do that under the law that Congress passed.

Senator BROOKHART. You advised that and supported that?

Mr. MEYER. No; I did not. In some cases, they asked the board's approval of their buying their bonds and the board considered it.

Senator BROOKHART. And granted it?

Mr. MEYER. And granted it where they could properly.

Senator BROOKHART. And they are all doing that now, or practically all of them?

Mr. MEYER. I do not know what they are doing now, Senator.

Senator BROOKHART. And were while you were in there?

Mr. MEYER. Some of them were; by no means all of them.

Senator BROOKHART. That meant liquidation of the banks, did it not?

Mr. MEYER. They were using their revenues for buying bonds.

Senator BROOKHART. Instead of making new loans to the farmers?

Mr. MEYER. In some cases.

Senator BROOKHART. And that would tend to depress the bonds?

Mr. MEYER. Not necessarily. On the contrary, it would have a tendency to prevent the bonds from going lower.

Senator BROOKHART. But they did not buy them unless they went lower?

Mr. MEYER. I do not know about that, Senator. Probably some of them did and some did not.

Senator BROOKHART. They were bears in the market?

Mr. MEYER. I hope not. I always urged them, if they did buy, to buy at the market. They could not buy any other way; they could not buy below the market.

Senator BROOKHART. In order to get part of the money to buy these bonds they foreclosed mortgages in default?

Mr. MEYER. That did not give them cash, because even when they sold the property, they usually sold on a deferred payment basis.

Senator BROOKHART. Sometimes they got cash?

Mr. MEYER. Not much, I should think, as a rule.

Senator BROOKHART. In Iowa they nearly always did.

Senator CAREY. The joint stock band bank is a private institution, is it not?

Mr. MEYER. It is.

Senator CAREY. It is simply under Government supervision, the same as a national bank is?

Mr. MEYER. It is.

Senator CAREY. And your board could not dictate to them as to how they should conduct their business?

Mr. MEYER. Except as provided under the law.

Senator CAREY. With reference to whether they should foreclose or whether they should buy bonds, you had no power to dictate to them as to that, had you?

Mr. MEYER. No, sir.

Senator CAREY. That is all.

Senator BROOKHART. You did dictate as to their managers and officers, did you not?

Mr. MEYER. I did not.

Senator BROOKHART. When they were not satisfactory to you they were forced to resign?

Mr. MEYER. You mean joint-stock land banks?

Senator BROOKHART. Yes.

Mr. MEYER. No.

Senator BROOKHART. That is true in Mr. Huston's case.

Mr. MEYER. In what bank?

Senator BROOKHART. In Southern Minnesota.

Mr. MEYER. He never was at the head of the Southern Minnesota.

Senator BROOKHART. What bank was he in?

Mr. MEYER. The Chicago Joint Stock Land Bank.

Senator BROOKHART. That is right.

Mr. MEYER. Mr. Huston resigned as the result of a consideration of the case of the joint-stock land bank by a committee of the Joint Stock Land Bankers Association, and also as a result, I think, of the opinion of some of the bankers that had sold the securities and also as the result of the attitude of the board of directors of the bank in 1927.

When Mr. Huston organized the Chicago Joint Stock Land Bank with $250,000 capital, a contract was made with him and his brother-in-law, a day or two after he organized it, which provided, among other things, that he and his brother-in-law should get, I think—I am not sure—a part of the profits amounting to 50 per cent above 6 per cent earnings on the stock. All the shares, or most of them at least, that he sold subsequently, amounting to three and three-quarter million dollars par value, as I recall it, were sold at a considerable premium on the prospectuses which he put out, without any knowledge, so far as we could ascertain, on the part of the buyers or the public that Mr. Huston and his brother-in-law had a contract of that character.

At the time I went on the board Mr. Huston asked for a conference and submitted a proposition which called for a cancellation or a modification of the contract. The board felt that Mr. Huston's contract was a contract involving a dual relationship as principal and agent. He was the beneficiary of the contract and he was the principal, in that he was the president and a director of the bank when the contract was made. The board felt that a contract of that kind—and you know as a lawyer more about contracts than I do—that that method of making a contract in itself presented difficulties. An adjustment of the contract, no matter how fair and how proper, seemed to be difficult to make while Mr. Huston remained as an officer of the bank—modifying the contract in the same manner that it was originally made. The board, through its secretary and general counsel, pointed out that difficulty, and it was felt that the stockholders' protection lay in having that matter considered by officers of the bank other than the executors of the contract—the beneficiary of the contract and the modifier of the contract. A committee of five members of the Joint Stock Land Bankers Association selected a new president; I did not select him, nor did the board select him. I suppose his salary was approved. It had to be.

That is my recollection of the course of events in a general way. It was a long time ago and it was one of many incidents in a very busy period.

Senator BROOKHART. While he handled the bank its bonds stayed at par?

Mr. MEYER. I do not know anything about the price of the bonds.

Senator BROOKHART. Then after your committee got charge of it, they began to decline.

Mr. MEYER. Not my committee—a committee of the Joint Stock Land Bankers Association.

You agree that that kind of a contract could not be properly executed in that way, Senator, don't you?

Senator BROOKHART. Oh, yes; and I agree that there was nothing criminal brought against him.

Mr. MEYER. There was no criminal prosecution on that contract.

Senator BROOKHART. Not on that, but on other things, similar ones.

Mr. MEYER. I do not know anything about that.

Senator BROOKHART. And the court so held; and the prosecution was a very great injury to the whole joint-stock land bank system of the country, because he was secretary of the Joint Stock Land Bank Association.

Mr. MEYER. Not at the time I came into the situation. Mr. Hendrick was president of the association, I think.

Senator FLETCHER. With reference to the relation between the Farm Loan Board and the joint-stock land bank, the charter of the Joint Stock Land Bank is granted by the Farm Loan Board?

Mr. MEYER. The charter is granted by the Farm Loan Board. Senator Wagner, you are a lawyer and used to be on the supreme court. Could the board, in your opinion, on the facts as stated, have taken any other position? I do not see what else it could have done.

Senator WAGNER. I think it was your duty to take the stand that you did.

Senator BROOKHART. There was no controversy with Mr. Huston about that. He simply did it the way you wanted it done without any controversy at any time.

Mr. MEYER. There was quite a delay. He did not want to resign until after his trial was over, and to that, as I recall it, the board did not offer objection.

I do not think Mr. Huston was treated by myself or by my colleagues in a way that justifies his feeling that he was persecuted.

On the contrary, I think he should feel, even if he doesn't, that he was treated with consideration. He sent his lawyers to see me later about the prosecutions, and I told his lawyers that I had nothing to do with them, because they were matters which were in the hands of the Department of Justice.

Senator CAREY. Did Mr. Huston control the board of directors so that such a contract could be entered into, or did they approve it?

Mr. MEYER. At the time of the organization of the bank, I could not say whether he controlled it or not. That was many years before I became a member of the board.

Senator WAGNER. He executed it as president?

Mr. MEYER. He must have.

Senator WAGNER. I was wondering whether the board of directors took the matter up.

Senator BROOKHART. Oh, yes. There was no secrecy about it at all.

Mr. MEYER. Yes, there was, Senator, if you will pardon me.

Senator BROOKHART. As to a similar contract in the other case, the circuit court of appeals held there was not.

Mr. MEYER. That was a different contract entirely. That was a contract for the sale of securities, and I do not understand that the case in Minnesota had to do with that. I do not know about the Minnesota case. I did not get into that. There was no lawsuit over the Chicago situation so far as I know.

Senator BROOKHART. No; but it was reorganized——

Senator WAGNER. Had you heard of such a contract?

Mr. MEYER. The stock was sold without knowledge on the part of the buyers of the existence of such a contract. Therefore it was secret from them.

Senator BROOKHART. When he managed it, under this bad contract, his bonds were at par and everything was in good shape. This quotation I have here shows that as to 5½'s, bid 50; asked 53; 5's, bid 46, asked 50; 4¾'s, bid 43, asked 46; 4½'s, bid 40, asked 43.

Mr. MEYER. The statement of the condition of the bank as published in that period by Mr. Huston did not properly reflect the condition of the bank. Real estate was carried in the names of dummies instead of being shown as real estate, for one thing. That I happen to remember.

Senator BROOKHART. That real estate dummy business: that is a custom of banks of all kinds. In our country when they get a piece of real estate they put it in the name of some of the directors or officers of the bank and carry on the books in that way. There is no concealment of the fact that it is carried in that way. That is the same way that this was done, was it not?

Mr. MEYER. I do not consider that carrying real estate in the name of a dummy and classifying it as a farm loan is a true statement of the facts to the stockholders and bondholders and to the public. If a bank chooses to carry real estate in the name of a dummy, it may perhaps, as a private institution, do so under certain circumstances, but not if it calls it a loan instead of real estate.

Senator BROOKHART. Do you claim that there was any fraudulent purpose in carrying that real estate in the name of some one in that way?

Mr. MEYER. I do not care to discuss that point. Perhaps sometimes there was and sometimes there was not. Anyway, it did not reflect the facts as to the condition of the bank with regard to real estate; and I think when the security holders found the facts by the publication of them in proper form, with truth instead of concealment, they found the condition of the bank was not quite as good as they thought it was or as it had been represented to be.

Senator BROOKHART. Then this policy of buying their own bonds at a low figure and canceling them put it in a worse condition? Is that true?

Mr. MEYER. No; not in my opinion. I, however, always advised banks, if they asked me, to buy the bonds at the market price whatever it was.

Senator BROOKHART. There are a few general questions on international matters, before I take up the matter of the remedy of this situation.

How much money did Europe owe the United States on trade balances in 1920?

Mr. MEYER. Senator, you do not want me to walk around with those figures in my head, do you?

Senator BROOKHART. I thought probably you would know that big figure.

Mr. MEYER. I could not tell you offhand how much it was. How much did they owe on trade balances?

Senator BROOKHART. You kept track of the trade balances, did you not, all the time?

Mr. MEYER. I used to. Whenever I want to know, I look it up, but I can not give you the balance of trade for years back. I feel very highly flattered at your asking me.

Senator BROOKHART. I did not mean to hold you to any absolutely accurate statement.

Mr. MEYER. I have no idea what it was, Senator, in 1920.

Seantor BROOKHART. Was Europe in a position to pay that?

Mr. MEYER. The Bureau of Foreign and Domestic Commerce publishes figures on that point. Of course there are many other items in the balance besides the merchandise trade balance.

Senator BROOKHART. Was Europe in position to pay this balance in gold?

Mr. MEYER. In 1920?

Senator BROOKHART. Yes.

Mr. MEYER. I do not know what the balance was, so I can not discuss it.

Senator BROOKHART. You know the general situation with reference to gold, do you not?

Mr. MEYER. Yes, but I can not talk about the ability to pay an amount that I do not know.

Senator BROOKHART. Should it have been the policy of the Government to demand that this trade balance be settled in gold?

Mr. MEYER. Our Government does not settle trade balances in gold. The Government does not control the settlement of trade balances. I will put it that way.

Senator BROOKHART. So they should say nothing about it?

Mr. MEYER. They can not do very much about something that they do not have any control over.

Senator BROOKHART. The Federal reserve system has something to do with that. What about it?

Mr. MEYER. The Federal reserve system settles merchandise trade balances?

Senator BROOKHART. It might. Doesn't it handle some of those things? Should it require the payment in gold?

Mr. MEYER. Everybody who owes money to the United States—I mean by that the merchants and business men and farmers, indirectly—has to pay in United States money ultimately, and that is the equivalent of gold. Would you want a cotton farmer to take his money in marks or lira? What would he do with it? He would have to sell it and turn it into dollars.

Senator BROOKHART. No; I am not wanting anything. I am just asking for information. What would have been the result if they had taken it in marks?

Mr. MEYER. The people here would have had to sell them and turn them into dollars.

Senator BROOKHART. That would have made a general depression in money, do you think?

Mr. MEYER. A depression in money? What do you mean by a depression in money?

Senator BROOKHART. A deflation or depreciation.

Mr. MEYER. All our exports have to be settled for in dollars, Senator. They may have credit, but sooner or later the people of the United States want dollars for their goods.

Senator BROOKHART. After a review of all this situation, it is true, is it not, that agriculture is in a depression and has been quite steadily since 1920?

Mr. MEYER. Different branches of agriculture at different times have not been in depressions.

Senator BROOKHART. What branches, if any? I would like to find them out.

Mr. MEYER. I have not got them all in mind.

Senator BROOKHART. Name what you can.

Mr. MEYER. I do not care to name any. I remember that cotton once went to 35 cents for one crop. It averaged a pretty good price for two or three years. Hogs commanded at the same period a good price, as did lards and fats. Sheep sold at a good price at some periods, and wool also brought good prices. Beef cattle at one time commanded good prices——

Senator BROOKHART. And hogs at the same time were so low that the farmers all lost money.

Mr. MEYER. At some periods hog prices have been very good.

Senator BROOKHART. You know that beef prices can not all be figured separately from hog prices in determining whether agriculture is prosperous or not, don't you?

Mr. MEYER. That is true in the corn belt. It is not true in the breeding country. They do not run hogs and cattle together.

Senator BROOKHART. In the breeding country, Senator Carey's country, they send their cattle over to us to be fed.

Mr. MEYER. They market quite a few good grass cattle.

Senator CAREY. A lot of them go directly to the packers.

Senator BROOKHART. We feed an awful lot of them; I know that.

Mr. MEYER. Yes; I know you do.

Senator BROOKHART. In the feeding country the corn belt cattle never do pay when fed alone without hogs.

Mr. MEYER. No; I know it is a joint operation. I have seen it, Senator.

Senator BROOKHART. Is it your idea of agricultural prosperity that if a farmer gets a fairly good price for cotton one year and then gets such a low price next year that he loses his farm, he is prosperous?

Mr. MEYER. No.

Senator BROOKHART. That has been the situation, has it not?

Mr. MEYER. I would not say that describes it.

Senator BROOKHART. Since 1920?

Mr. MEYER. I would not say that describes it generally. I do not think most of the farmers have lost their farms. I hesitate to be as pessimistic and as extreme in my expressions as you do, because, Senator, on the basis of your representations, no farmer would be entitled to credit under such conditions.

Senator BROOKHART. I think that is what you have brought him to.

Mr. MEYER. No; I don't think so; and I did not bring him to anything.

Senator BROOKHART. That is my opinion.

Mr. MEYER. I called your attention to the rise in the price of farm products during the period the War Finance Corporation was doing business. I did not bring the farmer to anything. I feel highly flattered by the importance that you attribute to me, but really I am not entitled to it.

Senator BROOKHART. You were very modest, I noticed, this morning.

Mr. MEYER. I am particularly interested in these problems. I have tried to do what I could to help; but I was just one factor out of many and not a very important one.

Senator BROOKHART. I tried to mention some other factors. First I brought up the question of the 50 per cent increase in railroad rates on farm products. Did that have anything to do with the agricultural depression now, do you think?

Mr. MEYER. I am not prepared to discuss the present agricultural conditions; I have been out of the Farm Loan System for two years.

Senator BROOKHART. We will confine it to the time you were in, then, two years ago. It has got a little worse, has it not?

Mr. MEYER. Freight rates disturbed conditions at times in some districts very much. In others they were not so big a factor.

Senator BROOKHART. They are a pretty big factor all over the Middle West, are they not? Senator Smoot stated one day—I have not checked the accuracy of his statement—that the Canadian farmer pays 14 cents a bushel less on the average to get his wheat to the seaboard than does the American farmer.

Mr. MEYER. Of course all of the farmers do not send their wheat to the seaboard. That would be detrimental to the farmers.

Senator BROOKHART. The price of all their wheat has been fixed by the seaboard prices all the time, until the Farm Board got a little busy recently Has not that been true?

Mr. MEYER. I do not know, Senator. There are so many grades of wheat. People talk about wheat as though it was just one thing, but there are a great many different grades of it and all work under different conditions.

Senator BROOKHART. These extra grades of wheat and the extra hard wheat are minor matters and do not cut any big figure in determining what the farmers are going to get for their wheat crop in a general way.

Mr. MEYER. I would like to see the farmers get better prices for wheat, certainly. I think it would be not only in the interest of the farmer, but in the interest of the whole country. We have the difficulty here, though, of the increasing production in other countries—a 100 per cent increase in Canada in 15 years.

Senator BROOKHART. On what. They do not raise any cotton up there.

Mr. MEYER. No. Were we not talking about wheat?

Senator BROOKHART. I am talking about the whole problem. Of course, just now we were mentioning wheat; but it all looks alike to me.

Mr. MEYER. Take cotton. Before the war we used to figure as a matter of statistics that the world consumption of American cotton increased 3 per cent per annum. Is not that right, Senator Fletcher?

Senator FLETCHER. I do not recall the exact figure.

Mr. MEYER. And the normal American crop was fourteen and a half million bales. Now it is 15 years later, and the American crop is fourteen and a half million bales and the world crop has gone up several million bales. There is some increase in Egypt, some in India, a little in many British colonies, because the British Government is encouraging cotton growing and subsidizing it. The world's increase has come and is coming from sources outside of the United States.

Senator BROOKHART. Have you the world figures?

Mr. MEYER. I think it is about 26 million bales production.

Senator BROOKHART. That is about what it was before the war.

Mr. MEYER. No; it was around 20 to 21 million, Senator.

Senator BROOKHART. And, of course, the world demand has grown.

Mr. MEYER. It has grown some, but it is not good just now.

Senator BROOKHART. Russia wanted to buy cotton from the United States, but it was refused any credits by the Farm Board.

Mr. MEYER. I just happened to hear a little while ago that Russia had 40,000 bales of cotton here which they sold.

Senator BROOKHART. At the same time they wanted to buy several million from the United States. These Russians have a mysterious way of operating.

Mr. MEYER. I understood that the Russian production went up from a million bales before the war to 1,700.000 bales this year.

Senator BROOKHART. I think that is true; and the Russian demand probably increased several hundred per cent. They are not anywhere near able to supply it.

It is true that there has been an agricultural depression here since 1920, and it has been constant, has it not?

Mr. MEYER. I said it was not constant, a few minutes ago. There have been very considerable fluctuations in conditions.

Senator BROOKHART. You mentioned some particular items?

Mr. MEYER. Yes.

Senator BROOKHART. And when cattle are high, does that mean that all agriculture in the United States is prosperous?

Mr. MEYER. No, not necessarily. It might be.

Senator BROOKHART. When cotton is high, does that mean that agriculture in the United States is prosperous as a general thing?

Mr. MEYER. I say that all the time different conditions control in different areas. I do not believe that in industry all industries are prosperous at any particular time necessarily.

Senator BROOKHART. I will agree with that. We will not have any argument about that phase of it. But that is no defense of this system.

Mr. MEYER. I am not defending anything, Senator. I am not here on the theory that I am responsible for the business conditions of the United States for the last 10 years.

Senator BROOKHART. If agricultural products had been handled as Mr. Hoover handled wheat, and the farmers had been allowed to fix the cost of production price with a cooperative margin of profit of 4 per cent, at least, on their capital investment, their buying power would have been immensely increased in the United States in these ten years, would it not?

Mr. MEYER. Their buying power?

Senator BROOKHART. Yes.

Mr. MEYER. I assume it would if you say so, Senator.

Senator BROOKHART. And then they would have bought more from over in New York and everywhere and added to the prosperity of the whole country?

Mr. MEYER. I think the whole country would like to see farmers much more prosperous right now.

Senator BROOKHART. Do you agree with the proposition that agriculture is the basic industry in the United States?

Mr. MEYER. I have said so repeatedly in the last few years, publicly and privately.

Senator BROOKHART. Then if we are to have a stable prosperity it must be based on agricultural prosperity; is not that true?

Mr. MEYER. That is the way I feel about it. I think it is true. I hope it is true, because that is what I think; but I have not discovered that to-day, Senator, nor am I learning it from you for the first time.

Senator BROOKHART. I do not expect you to learn anything from me. That is my complaint.

Mr. MEYER. I feel that I have an open mind, Senator, and I am very anxious to learn anything I can from anybody.

Senator FLETCHER. Something has been said about the price of cotton during the war and afterwards. I remember that during the war freights on cotton increased enormously—I mean, ocean freights. The freight on a bale of cotton from Galveston to Liverpool before the war was $2.50. During the war it went up to $50 a bale. That of course was reflected to some extent in the price of cotton, which the producer received. It was because we had no carriers. The German ships were out of commission; the British ships were commandeered largely for war use, and we had no merchant marine of our own, practically, in overseas service.

I think the rate on wheat went up from about 3 cents a bushel before the war from New York to Liverpool to 50 cents a bushel after 1914. So that must have had some effect on the price of those commodities here.

Mr. MEYER. In raising them or lowering them, Senator?

Senator FLETCHER. Lowering them; because the cost of the freight was reflected in the price in this country. Cotton was selling about 8 cents.

Mr. MEYER. When?

Senator FLETCHER. When the war started in 1914 and for some time after that. I recall the appeal to everybody to buy a bale of cotton. I bought a few bales at 8 cents.

Mr. MEYER. Cotton was 8 cents when the war broke out, but it went up, beginning a few months later, and was up above that all through the war and for a long time afterwards.

I happen to remember, because when I came down to Washington in 1914 and discussed with some of the people here the desirability of the Government's doing something for the cotton situation, they told me I was a socialist, or something.

Can you imagine such a thing, Senator Brookhart?

Senator BROOKHART. I can imagine they made an awful mistake.

Mr. MEYER. I thought the Government ought to do something for cotton, because you fellows in Iowa, or rather the west, were getting a hundred per cent more for your wheat, and the cotton farmers were getting 50 per cent less for their cotton.

Senator BROOKHART. Not being a wheat State, of course that did not affect us much out in Iowa.

Mr. MEYER. You did not worry about cotton. I did, because I thought it was disastrous for the cotton farmer. But they told me I was a radical, Senator.

Senator BROOKHART. I think they made another mistake there.

The important thing in this matter is the control of credit on all these problems. The control of credit is an important matter in business, is it not?

Mr. MEYER. One of the factors.

Senator BROOKHART. The amount of business we do on credit is a very great factor in the United States, is it not?

Mr. MEYER. Taking the credit as a whole, the bulk of which comes from loans which are made by banks which are lending their deposits.

Senator BROOKHART. Here is what our farmers in the west think now—and I have a telegram from the Agricultural Association of Illinois, the second biggest farm bureau in the State, against this confirmation. It came yesterday. The way they feel about it is that this credit control in the East, all of this vast sum being diverted into speculation, reduces the credit that the farmer ought to have, first, and, second, increases his interest rate enormously; and they feel that it has done that both as to long-time mortgage loans and short-time loans.

The bankers out there who called me a radical and a bolshevik in the beginning have reached about the same conclusion now, and I get along very nicely with them, and they say to me something like this: "We are forced now to invest our funds in investment bonds that are promoted up in New York. This system has shaken up and weakened land values and commodity values in agriculture. It is not safe to make the farmer the loans he ought to have. Bank examiners always approve our long-time investments in the East, and hence we are practically forced to make that class of loans."

Is there anything that the Federal Reserve Board can do to relieve that situation?

Mr. MEYER. Senator, the only public statement issued by the Federal Reserve Board since I have been a member of it, other than the seven announcements of reductions in discount rates which were initiated by the respective banks and approved by the board, and routine statements, was the statement on September 24, 1930, eight days after I became a member of the board, which reads as follows:

> At a preliminary conference held by the Federal Reserve Board in connection with the regular fall meeting of the governors and chairmen of the twelve Federal reserve banks, a comprehensive review was made of the agricultural, general ecomonic and credit situation throughout the country. Being the season of usual marketing of the country's crops, reports were made with particular reference to the status of agricultural staples in each of the Federal reserve districts and there was special discussion of the conditions affecting their marketing and financing.
>
> The board was assured and satisfied that in each of the 12 Federal reserve districts ample credit facilities are available for financing the marketing of the crops, and that such facilities are being provided by the banks and other agencies concerned in the orderly marketing of agricultural commodities. The 12 Federal reserve banks through rediscounts for their member banks, loans to Federal Intermediate Credit Banks on agricultural paper of cooperative associations and purchases of bankers' acceptances covering agricultural commodities, are making their resources available for the marketing of the country's crops at the lowest rates in the history of the system.
>
> It was the view of the conference that the extension of credit to support the orderly marketing of crops—at all times an important function of the Federal reserve banks—is of special importance at the present time. To that end, the Federal Reserve Board was assured that the Federal reserve banks will continue their efforts to acquaint their communities with the facilities of the system and the disposition of the management of those banks to meet the problems connected with the marketing of the crops.

That is the only announcement that has come out from the board that has to do with the subject that you are discussing.

Senator BROOKHART. That is a very beautiful glittering generality, but I have not noticed it reducing the interest rate to any farmer in my country or anywhere else.

Mr MEYER. The interest rate to the framer is fixed by his bank, not by the Federal reserve system.

Senator BROOKHART. And the reserve system can not do anything to lower the interest rates?

Mr. MEYER. It is a matter for the various banks in the district to take care of.

Senator BROOKHART. Various reserve banks, you means, or the members?

Mr. MEYER. The member banks and the State banks that are not member banks, which in your State are far more in number than the member banks.

Senator BROOKHART. Then the fault in that is due to the banking system generally and not to the Federal Reserve Board?

Mr. MEYER. It has a lot to do with it, not enough of the banks in some of the States, particularly your State, belong to the system, in my opinion.

Senator BROOKHART. A great many of those who do belong, wish they did not. I do not know how that will balance out, exactly. But I am not disagreeing with you much on the proposition, so far as that is concerned.

Mr. MEYER. On what proposition, Senator?

Senator BROOKHART. As to where the trouble with the higher interest rate lies.

Mr. MEYER. I think they pay too much for deposits in some States, which is one reason the lending rates are too high.

Senator BROOKHART. I think perhaps that is true.

Mr. MEYER. I think, Senator, that is the key element in the situation. If it were possible for the Iowa State banking department or the legislature to reduce the high rates paid on deposits, in many instances, they could perhaps lend money at lower rates and pay their expenses and get a fair return on the capital. I think that would be true not only in your State, but in many States.

Senator BROOKHART. You have advanced a very far-reaching proposition, now. Let us see if you follow it through logically.

If the legislature would reduce these deposit rates——

Mr. MEYER. I do not know who could or should do it, but it should be done.

Senator BROOKHART. You said the legislature.

Mr. MEYER. Well, whoever has the power to do it.

Senator BROOKHART. Upon this proposition of the accumulation of all this surplus credit in New York which was so offensive to the original idea of the Federal reserve act, is not this the case, in part, at least, and in large part, that the reserve bank gets deposits from its member banks as well as to make loans? It does those two things: It receives deposits and makes loans?

Mr. MEYER. The member banks maintain their reserves in the form of deposits in the Federal reserve banks.

Senator BROOKHART. This law, in reference to rediscounts, prohibited the reserve banks rediscounting speculative paper, and the reserve banks have lived up to that law, have they not?

Mr. MEYER. I presume they have.

Senator BROOKHART. Since your administration you have seen no sign of violating the law against rediscounting speculative paper, have you?

Mr. MEYER. The Federal reserve banks can lend only on eligible paper or on Governments. They can not lend on any speculative securities, if that is what you mean.

Senator BROOKHART. Speculative securities are not eligible?

Mr. MEYER. No.

Senator BROOKHART. And they have been living up to that law?

Mr. MEYER. I am sure they have.

Senator BROOKHART. So, on the rediscount side of the Federal Reserve System, you have stopped speculation or the use of credit for speculative purposes, so far as the Federal reserve banks are concerned?

Mr. MEYER. That is a question that is under discussion by Senator Glass's committee. Witnesses are being heard and I have not heard enough nor have I seen enough to have an opinion on that.

Senator BROOKHART. That committee, or some members of it, have a view, and probably rightly, that in another way aside from rediscounting speculative paper it could be controlled by the Federal Reserve Board, and I will ask you about that.

Could you control it by refusing to rediscount eligible paper to banks that are making speculative loans?

Mr. MEYER. You know that is a subject that is being considered by the Glass committee and witnesses are being heard. The board, of course, does not make loans or refuse loans. It is a question of bank administration rather than board administration. There is in the Glass bill some provision aiming at or dealing with that, I think

Senator BROOKHART. But here comes a New York bank with a lot of eligible paper for rediscount, we will assume, and at the same time it has a large volume of speculative loans that are not eligible for rediscounting. Under those circumstances should the Federal reserve bank rediscount that eligible paper?

Mr. MEYER. Senator, you did not ask whether a bank should be allowed to rediscount eligible paper if it has ineligible paper?

Senator BROOKHART. Yes; that is what I am asking you about.

Mr. MEYER. Some kinds of agricultural paper might not be eligible. Would you say that a bank can not discount its eligible agricultural paper because it has some ineligible agricultural paper?

Senator BROOKHART. There is hardly a parallel there, because this speculative paper is prohibited by the law, because it is illegitimate business to begin with. We will confine it to that idea for the present. It is not radical any more to say that margin loans are gambling deals, because the Supreme Court of Illinois, in a unanimous decision, has so held in reference to the board of trade in its own State. So we have responsible judicial authority now to back up what they used to call me a radical for.

Mr. MEYER. It seems to me, Senator, that this is a question in connection with the banking situation that Senator Glass' committee is studying and investigating.

Senator BROOKHART. Yes; but I want to know what you think about it.

Mr. MEYER. I am attending those hearings and listening to the witnesses and trying to learn something about it, Senator, but I have not arrived at any opinion as to what is desirable, or what is the most desirable way to achieve what is desirable. I have a good deal to learn about it, and I am proposing to keep my mind open.

Senator BROOKHART. We will pass that question if you have no opinion about it.

Mr. MEYER. No. I want to learn about it, and I go every morning and spend two or three hours listening to the witnesses.

Senator BROOKHART. I will go to a further question on this matter, the deposits by member banks in the reserve bank. The law does not permit a reserve bank to pay any interest rate at all for those deposits, does it?

Mr. MEYER. No; it is not authorized by the law.

Senator BROOKHART. Even on the reserves there is nothing paid. They must be deposited and no interest rate paid for their use at all. A bank will, in the course of a year, have a surplus a good deal more than its reserve?

Mr. MEYER. I am sorry to say that the banks, generally speaking, try not to. That is one of the things that make a little trouble.

Senator BROOKHART. But in spite of what they are trying, do they do it from time to time?

Mr. MEYER. Not so much, Senator, as a rule.

Senator BROOKHART. As to that extra surplus over and above the 7 or 10 or 13 per cent of reserve that they may have on hand——

Mr. MEYER. You mean, that the banks have surplus reserves in the Federal reserve bank?

Senator BROOKHART. A surplus credit on hand.

Mr. MEYER. Money in the vaults?

Senator BROOKHART. Yes.

Mr. MEYER. They do not keep very much as a rule.

Senator BROOKHART. No; they do not.

Mr. MEYER. Except banks that are far away from a Federal reserve bank or branch do have to keep a little more.

Senator BROOKHART. But if they do have more than their reserves, they do not deposit it in the Federal reserve bank, do they?

Mr. MEYER. I do not think they do, as a rule.

Senator BROOKHART. Because the big banks in Chicago or New York offer an interest rate for those redeposits?

Mr. MEYER. They do not offer very much; I think about 1 per cent, now.

Senator BROOKHART. But most of the time since the Federal reserve system has been in existence, about 1.75 per cent?

Mr. MEYER. I could not say. I have not looked it up. I was not interested.

Senator BROOKHART. And they take right away from the reserve banks practically all of these redeposits except the reserves which must be redeposited by the member bank in the Federal reserve bank? Is not that true?

Mr. MEYER. I could not tell you, Senator, because I have not been in the situation long enough to study it.

Senator BROOKHART. You know this, that the banks are rather careful to keep their deposits with the reserve banks down to somewhere near the reserve?

Mr. MEYER. Yes; I think that is probable.

Senator BROOKHART. A result of the law—I am not blaming the administration of the bank for this proposition—is practically to drive this surplus credit of the ordinary bank that is over and above its reserve into the big banks which will pay a redeposit rate. That is the practical effect of the law, is it not?

Mr. MEYER. I am afraid that I am not fully familiar with the workings of that part of the banking situation.

Senator BROOKHART. Would it not necessarily work that way?

Mr. MEYER. Oh, they might buy Government bonds or Treasury certificates with it.

Senator BROOKHART. They might.

Mr. MEYER. Or they might invest it locally in loans on warehouse receipts, etc.

Senator BROOKHART. But the tendency would be to drive in into the other bank?

Mr. MEYER. I imagine some of your banks in Iowa would deposit in the larger cities of the State, and if the larger cities had too much and did not know what to do with it, it would probably go to Chicago.

Senator BROOKHART. But the banks in my State redeposit in New York.

Mr. MEYER. I did not know that. I can not tell you about that.

Senator BROOKHART. In New York, the same as in Chicago, is not that working of the law one of the big causes, perhaps the biggest cause, of the accumulation of surplus credit of the country in New York?

Mr. MEYER. I have not studied that, Senator, and I have no opinion now.

Senator BROOKHART. I think that is one thing that needs the study of the Federal Reserve Board. I do not know of any bigger proposition than that that needs its study.

Mr. MEYER. To a certain extent a State like yours has seasonal requirements as well as regular requirements.

Senator BROOKHART. Oh, yes; that is true. But I know little banks in little towns that have $200,000 in New York on redeposit because they can not get any interest rate anywhere else; and after it gets there, there is no restriction in the law about the New York bank lending it, and they can lend it to the speculator on margin.

Mr. MEYER. But a money market like New York or Paris or London attracts liquid balances of a temporary character from many places. There is now a lot of money carried on deposit in New York by foreigners, simpy because they like American money. They feel an unusual confidence in it.

Senator BROOKHART. Paul Warburg said in his book, before the Federal reserve system was established, that about the only reservoir we had for the collection of this surplus credit was the margin speculation in New York.

Mr. MEYER. Yes; he favors the enlargement of the acceptance market and the reduction——

Senator BROOKHART. But since the Federal reserve system we have already pointed out that that reservoir increased from 766,000,000 up to 7,000,000,000 or more.

Mr. MEYER. That was at the peak. At the present time it is much less.

Senator BROOKHART. It is about $1,750,000,000 now.

Mr. MEYER. Something like that.

Senator BROOKHART. There is nothing that the Federal Reserve Board can do in its administration to stop the flow of this surplus credit back to the New York banks, is there?

Mr. MEYER. I do not know, Senator. I have not been there long enough to find out what the board can do or what it wants to do. I am just one of the members, and there have been a great many things to think about in the last three or four months. I confess that I have not arrived at an opinion on every subject.

Senator BROOKHART. It is amazing to me that you have not studied that important question.

Mr. MEYER. You would not be so amazed if you knew all the other things that have been occupying our time. They have been considerable.

Senator BROOKHART. The Comptroller of the Currency is suggesting a system of branch banks. Is that suggested as a remedy for this accumulation of credit in New York?

Mr. MEYER. I do not know all that was in the Comptroller's mind when he made the suggestion. It is his suggestion, not mine.

Senator BROOKHART. I heard him make it at the Glass committee in a limited way.

Mr. MEYER. Yes; I heard him. I can not give you all his reasons for making it.

Senator BROOKHART. I want to know what you think about it.

Mr. MEYER. I have not studied it. The Glass committee is conducting hearings on it, and it is being studied by a committee in the Federal reserve system, which we hope will report within some reasonable time.

Senator BROOKHART. It is a very vital and material matter with regard to whether or not you ought to be confirmed as Governor of the Federal Reserve Board.

Mr. MEYER. I have not any opinion on it at the present time, Senator.

Senator BROOKHART. Do you know anything about branch banking systems?

Mr. MEYER. A little, not much.

Senator BROOKHART. What do you think about them from what you know of them?

Mr. MEYER. I have not arrived at any opinion, Senator. I do not know enough about them. I hate to have opinions until I feel I know all I can find out. Then I have an opinion.

Senator BROOKHART. That means that you never will have an opinion on anything.

Mr. MEYER. Oh, yes. I said, all I can find out.

Senator BROOKHART. There never comes a time when you can find out all that can be found out.

Mr. MEYER. I did not say I could find out all. I said, all I could find out. That is very different. I hope you do not think I am being too conservative in deferring opinions until I feel I have a basis for them.

Senator BROOKHART. I have a strange feeling that you really know more about it than you let on to know.

Mr. MEYER. Senator, again I am afraid you attribute more knowledge to me than I possess. I think it is one of the big subjects that requires a great deal of careful study. I do not think there is any subject more important to the people of this country than the question of a sound banking system, and I do not think that in my position I would be justified in going off half-cocked and expressing opinions without adequate foundation and study and information.

Senator BROOKHART. I am going to conclude this examination by asking you about a sound banking system. Is this commercial quick turn-over competitive banking system a sound system for the financing of agriculture?

Mr. MEYER. I am not satisfied under present conditions with the services of the banking structure of the country as applied to the agricultural interests.

Senator BROOKHART. So there is something wrong with the banking system, so far as agriculture is concerned?

Mr. MEYER. I will say, not only agriculture, but in general; particularly, perhaps, with regard to agriculture.

Senator BROOKHART. Senator Pepper said many times—and I think he was an expert on the proposition—that 92 per cent of American business ultimately fails. That is, in number, not in volume. If that be true, there is something unsound all along the line, is there not, in this American business system?

Mr. MEYER. I would have to get statistics from other countries, Senator.

Senator BROOKHART. It is not that high in other countries. I can not give you the figures.

Mr. MEYER. Do you have the statistics, Senator?

Senator BROOKHART. I have some of them.

Mr. MEYER. I would be inclined to want to inquire into the basis of that estimate of 92 per cent. I have a high regard for Senator Pepper, and sometime when I see him I will ask him how he got that figure.

Senator BROOKHART. Senator Harreld, who was long an expert in bankruptcy matters, said it was 96 per cent. I have seen one estimate as high as 97 per cent, and I never saw an estimate lower than 80 per cent.

Mr. MEYER. I should say, if that is the case, that it is a clear evidence that men are weak.

Senator BROOKHART. Senator Glass, in his speech on the truth about the Federal reserve system, delivered in January, 1922, said this:

> I quite agree, Mr. President, in the next place, that there is need in this country for a strictly rural credit system adapted to the peculiar wants and processes of the agricultural communities. Such a system conjoined with the existing Federal Land Bank system extending long time seasonal credits, embracing crop reparation as well as orderly and advantageous marketing, would be of inestimable value to the farmers of the United States.

Mr. MEYER. Was he discussing intermediate credit?

Senator BROOKHART. No; he was suggesting a complete cooperative banking system, the Senator told me when I called his attention to it the other day.

Mr. MEYER. I have a high regard for Senator Glass, as you know.

Senator BROOKHART. You have investigated these cooperative banking systems to some extent, have you not?

Mr. MEYER. Senator, I am sorry to say that I have not had a chance to do it.

Senator BROOKHART. I remember your talking to me about it in Paris and London both.

Mr. MEYER. No. I think you misunderstood me. You refer to that occasionally, but I am sure that you misunderstood me. I saw you in Europe in 1923. You went to a meeting where there was a lot of speech making, and I went to visit the headquarters of the Wholesale Consumers Cooperative in London and in Manchester and discussed the operations with some of the people there. That is a big consumers' cooperative which also does some producing and some banking. But I have never discussed what you call cooperative banking with you or anybody else, and I have not been able to find out anything from you about it.

Senator BROOKHART. I am going to ask you a few questions about it.

Mr. MEYER. You can not ask me any questions that I can answer, because I am not informed about it.

Senator BROOKHART. Of course at that time I remember very distinctly your position. You had a very decided opinion then that these big consumers' cooperative——

Mr. MEYER. Don't say " these." I was talking about the Wholesale Consumers' Cooperative in Great Britain. I was not talking about anything else.

Senator BROOKHART. That is all I am talking about—that this consumers' cooperative system of Great Britain needed and must have its own cooperative credit system, because it was made up of consumers and did not have a basis of credit, and in the United States the cooperatives are producers.

Mr. MEYER. You misunderstood me if you understood that I said that, certainly, it is not what I intended to convey, if you so understood it.

Senator BROOKHART. I quite well understood it at the time.

Mr. MEYER. I was not discussing the banking end of it. What I was saying was that that organization, the Wholesale Consumers' Cooperative of Great Britain was organized by the consumers with a view to helping the consumer cooperatively. Our big commodity co-operatives here are producers' co-operatives; and those were the two types of institutions that struck me by way of contrast.

Senator BROOKHART. Your theory then was——

Mr. MEYER. I did not have any theory.

Senator BROOKHART (continuing). That the consumers needed cooperative credit and that producers did not.

Mr. MEYER. The War Finance Corporation made very large loans to the cooperative associations composed of producers of cotton, tobacco, and other staples. So I was just contrasting the fact that the cooperative movement in America had advanced principally along lines of interest to the producers, whereas in Great Britain apparently, as far as I could see from that one outstanding cooperative, it had been organized in the first instance by consumers.

Senator BROOKHART. These cooperatives in the United States are only a meager little fraction of the farm business of the United States.

Mr. MEYER. Yes.

Senator BROOKHART. You only loan them a little amount of money compared with the $9,000,000,000 worth of farm stuff that was sold.

Mr. MEYER. We agreed to lend them a good deal of money; and our willingness to lend was a great factor in their ability to get the money somewhere else.

Senator BROOKHART. The fact that you loaned it to them——

Mr. MEYER. It does not matter, Senator. All I was talking about was the fact that in England the big cooperative was a consumers' cooperative, and the ones that we had done business with in America were composed of producers.

Senator BROOKHART. I have their yearbook here for 1927.

Mr. MEYER. Would you lend it to me, Senator?

Senator BROOKHART. Yes; I will lend it to you. I think you need to study it.

Mr. MEYER. I will be very glad to see it.

Senator BROOKHART. They had 158 producing factories when you investigated them that belonged to that wholesale organization.

Mr. MEYER. Yes, I know; but it started with consumers.

Senator BROOKHART. That was the name only. They were producers——

Mr. MEYER. I quite understood that. But it started with the consumers. That is all I was saying. And here we started with the producers.

Senator BROOKHART. It does not make any difference about the start in cooperation.

Mr. MEYER. Not in the end, no. The machinery is different. The cooperatives in foreign countries are a little different from our domestic cooperatives——

Senator BROOKHART. There is not any difference in any cooperative, whether it is domestic or foreign or national or international. It has the basis of the same three cooperative principles. That is the trouble in this country. Many have gone out and organized cooperatives, but of course they all failed. You know Sapiro, of course?

Mr. MEYER. Yes. I have not seen him in many years.

Senator BROOKHART. He organized a great many cooperatives, all financed under our competitive financial system, and they all failed. He made the same argument to me that you did in London, that we did not need cooperative credit institutions in the United States because we were producers, and only the consumers had any basis of credit, and therefore had to have their own banking system. Of course the result was that his cooperatives blew up. They were financed by this competitive system that is hostile to the whole idea of cooperation.

In this book is a picture of the cooperative reserve bank in Manchester. It was not there when you were there.

Mr. MEYER. Yes; they had a bank.

Senator BROOKHART. Yes; they had a bank which was in this building [indicating] when you were there. Since then they have erected the building shown in this picture [indicating].

When you were there the turn-over of that reserve bank was some two and a half billion dollars. This book was printed in 1929, but these are 1927 figures. It was three and a half billion then, or a little over that, and it is more than four billion to-day. It is one of the biggest banks in the world.

Mr. MEYER. That association is about 65 or 70 years old, is it not?

Senator BROOKHART. It is about 85 years old. It started on the 21st day of December, 1884, at Rochdale, in England.

Mr. MEYER. It was a well established institution.

Senator BROOKHART. It was started on the shortest darkest day of the year. It had 28 flannel weavers in it, and they had a pound apiece—$140. That is the way it started. But it had at least one man who invented the third cooperative principle. Robert Owen, known as the father of cooperation, had spent a great fortune trying to establish cooperatives, and they failed. He started it in this country. Posey County, Ind., is famous as Robert Owen's headquarters. But he sold his goods at cost and he had losses, and then there had to be assessments, and then the membership became dissatisfied and his organization broke up.

Charles Hawarth invented the trade dividend. He sold at a fair profit and then at the end of the quarter year took out 25 per cent of the net and put it in the business and then distributed the other 75 per cent of the net back to the members in proportion to the business they transacted in the enterprise.

That principle, together with the absolute limitations of the earnings on capital, gave capital a fixed and definite wage, the same as men are given a wage; and one man had one vote in the cooperative enterprise, regardless of how much stock he owned, just as one man has one vote in the Government of the United States.

On those three principles this started. Finally it succeeded. It was a joke at first, but it had a big sucess.

Then they looked around and said, "It would be better if we had our own wholesale business," and then the stores subscribed cooperative capital to start the wholesale. They put in the same three principles in its management and it succeeded at once. They kept 25 per cent of its net earnings in the wholesale, so it grew and became larger. The other 75 per cent was distributed to the stores in proportion to the business they transacted with the wholesale, and they had that profit to distribute on down.

They had two or three thousand of these stores and they had a lot of failures, like we have in this country. The banks sold them out and therefore closed them.

Finally they said, "We would do better if we had our own credit system." And then they started with a little deposit bank, a sort of a department of these stores, with a reserve bank in the wholesale and it has become one of the great banks of the world, doing business all around the world, paying no more attention to Pierpont Morgan or the Bank of England than if they were not on earth, because they have got more money in their own vaults to check against, and they buy more wheat in the United States than any other buyer and buy more in Canada than any other buyer.

Is that system suitable to agriculture in the United States?

Mr. MEYER. I would like to read the book and learn more about it. It is not particularly a cooperative that deals with agricultural membership, is it?

Senator BROOKHART. The basic societies would have the membership, of course, the farm bureau and the Grange and all these farm organizations.

Mr. MEYER. I mean, in the case of the English organization, is the membership composed largely of farmers, or is it largely——

Senator BROOKHART. In this English concern it is nearly all labor.

Mr. MEYER. That is what I had an idea it was.

Senator BROOKHART. When I was in London, and you were there at the same time, farmers were beginning some cooperative organization.

Mr. MEYER. Have they made much progress with it?

Senator BROOKHART. Not very much at that time. They have made some since.

Mr. MEYER. That has been seven years, Senator.

Senator BROOKHART. And the head of the farmers' cooperative in London told me at that time that he had a committee in Denmark studying farmers' cooperatives and would bring a report back to England. I then told him that Uncle Peder Pedersen in Iowa, the organizer of the Farm Bureau, had forty years before gone from Denmark to Rochdale, in England, to study this identical system that I have described to you, and took it to Denmark for the farmers of Denmark.

So it fits into agriculture just as well, and I think the farmers of Denmark are probably better organized than the laborers of England are. They have a complete banking system as perfectly organized as any bank.

There are a few other points I want to ask you about this.

I have here Mr. Myron T. Herrick's book on Rural Credits, Land and Cooperative. He autographed it to me on May 14, 1923, about the same time I saw you over there.

On page 5 of that book Mr. Herrick says:

> The machinery for credit in the United States is defective and inadequate from the point of view of agriculture.

He was also one of the big bankers of our country.

> There is plenty of money, it is true, for well to do farmers who are able to meet all requirements imposed by the lender, but there are no means whatever for granting long-time loans, no arrangements, except in a few local and special cases, for promoting the movement of the people back to the land, no outside sources for short-time credit, nor any system whereby agriculture may have first use, as it should, of the wealth it creates for financing itself.

Senator GOLDSBOROUGH. When was that book written, Senator?

Senator BROOKHART. In 1929. [Reading further.]

> About the only facility of which farmers avail themselves at the banks is the straight loan on promissory note. They depend too much on the merchant to carry them over from harvest to harvest, and on this indirect credit, always expensive, of installment purchases and running accounts they are paying excessive interest in all localities remote from financial centers, and their unfructuous debt is increasing with no prospects of immediate reduction.

Would that situation be improved if we had a branch banking system?

Mr. MEYER. I have no opinion on that, Senator.

Senator BROOKHART. Then again, on page 8 Mr. Herrick says:

Furthermore, the shortest period needed for agriculture is too long for the banks, and so the 90 day paper of the merchant gets the preference over the six months or one year paper of the farmer. As a result, the major portion of the farmers' credit is not bankable under the present system, and only a comparably small amount of their paper reaches the outside world. Consequently, when they wish to realize upon their credit to its fullest extent, the farmers must pay a premium for the risk incurred, besides the highest interest charged in their immediate vicinity. A new system to be added to the old is necessary to rectify this trouble also, in spite of the powers recently granted to national banks by the Federal reserve act of 1913.

You have had experience with the farmers. What do you say as to that conclusion?

Mr. MEYER. When was that written?

Senator BROOKHART. This was published in 1919.

Mr. MEYER. I think I told you that I suggested some years ago an amendment making eligible for rediscount with the Federal Reserve Banks, under certain conditions, agricultural paper having a longer maturity than six months.

Senator BROOKHART. But that seems to be but a little bite. He says we need a great system, a new system, to be added to the old. A new, complete system is what he is talking about, "to rectify this trouble also, in spite of the powers recently granted to national banks by the Federal reserve act of 1913."

Mr. MEYER. I should think the Glass committee would be studying that.

Senator BROOKHART. No; the Glass committee is not studying that at all. We are going to have another committee study this question, and it is important that we know something about what the Federal Reserve System's attitude would be.

Mr. MEYER. It is a big problem.

Senator BROOKHART. Again, on page 9, Mr. Herrick says:

Agricultural wealth and production in the United States are greater than in any other country. The figures are stupendous. In 1910 farm property was valued at $40,991,449,090, of which $28,475,674,169 was in land. If this capital were mobilized the credit needs of farmers could be supplied for all time to come. The annual returns were $8,417,000,000. This is more than sufficient to finance a banking system for the exclusive use of the farmers. Mobilization can be accomplished, however, only through institutions capable of lengthening the period of loans, allowing repayment by amortization, and able to make heavy and constant sales of debentures issued against the mortgages taken. As regards short term credit, the best banking system ever devised for enabling farmers to utilize their own funds and revenues for their own purposes is a cooperative system.

Now, do you think that is a sound proposition?

Mr. MEYER. You have read a few extracts from the book. I have not read the whole book, and I do not really feel that I have thought it out enough to express an opinion.

Senator BROOKHART. Well, I will read one more quotation, from page 478, and then we will quit:

The unions——

These are the basic societies that he is talking about.

The unions, with officers consisting of experienced and capable farmers and other persons identified with agriculture, would see to the supervision, inspection, and auditing of their local credit societies and regional banks and associations, which would finally be linked together through the unions by State and national federations with central institutions.

Then, again, he says:

There are no Federal or State laws in the United States under which the farmers might organize themselves into systems with credit societies as the basic units.

And we are the only civilized country in the world where that is true.

Senator CAREY. Do you know anything about the mutual banks we have in New England? How do the English cooperative banks differ from these?

Senator BROOKHART. That is mentioned in the next sentence, Senator. [Reading:]

The laws of Massachusetts on credit unions of 1909, of Texas on rural credit unions of 1913, of Wisconsin on cooperative credit associations of 1913, and of New York on credit unions as finally enacted in 1914, provide for the organization of associations intended for thrift and small credit for feeble folk. Texas limits the loans to $200 at not over 6 per cent for productive purposes, thus absolutely preventing large undertakings, while the restrictive measures of all four laws render them useless for rural banking and credit systems.

And that has to do all the farmer's business.

All require the members to be natural persons; none allows associational members. This alone would prevent credit societies from being the basic units of a system.

I got a cooperative banking law passed out in my State, but the bankers' association got a joker in it so they can not organize and assist anybody. [Reading further:]

All forbid the acceptance of deposits from outsiders, thus closing the greatest source of funds for operations. All require share capital and prohibit the societies from doing any other business and from using their funds for any other purpose than that of making loans.

Why should not a cooperative bank have a right to get deposits the same as any other bank? Why shouldn't they have the right to do the business that any other banking system has?

This rejection of Raiffeisen principles is the most serious and regrettable defect in the laws. The farmers of the United States are capable and independent men and they should have the right under the laws to organize themselves as best suits their own ideas or circumstances, whether it be in associations with shares or without shares, or with collective liability limited or unlimited. Moreover, they should be able to decide for themselves whether they will have syndicated local associations or just one Raiffeisen credit society for each neighborhood. They have no choice under any of these laws, and thus the play of private initiative and freedom of action is blocked.

Do you think those who believe in cooperation, like all the farm organizations do, and like all the labor organizations do, and like the independent retail merchants are coming to believe, should have a law that would give them permission at least to organize this cooperative system complete, with a reserve bank and all from top to bottom in the United States?

Mr. MEYER. I have not studied the question enough. I think what you have been reading is very interesting, Senator, but I can not jump at any conclusion.

Senator BROOKHART. The Senator from Florida (Mr. Fletcher) knows what this all means, because he investigated these systems and made a magnificent report upon them quite a number of years ago.

Senator FLETCHER. Mr. Herrick was very much interested in the subject of rural credits. He was of great assistance to our commissions in Europe.

Senator BROOKHART. I went into Herrick's office and told him that I came there to study cooperative banking, and all his ambassadorial dignity left him at once and he said, "Sit down. You are on the greatest commission in the world." And he pushed a button and a boy came in and he told the boy to get this book. He autographed it and signed his name and the date, May 14, 1923, and he said, "I want you to read this. As you go over the countries of Europe you will find that the United States is the only civilized country in this world that by law is prohibiting its people from organizing a cooperative system with its own reserve banks and all under their own control."

And I have found out something about why that was. I went up to New York one time and talked to about 200 people. Not your friends, Senator Wagner, but that other crowd up there.

Senator WAGNER. They are all my friends up there.

Senator BROOKHART. Not your political friends, anyhow.

Senator WAGNER. How do you know?

Senator BROOKHART. Because you did not get all those "stand pat" votes up there.

There were about 200 of them there that night, and after talking cooperation and standing around waiting for my train—I did not specifically mention cooperative banking that night; it was just cooperation in general—but after it was over there was a man who came to me and called me off to one side and said—

> I want to tell you something. I think Paul Warburg is the greatest financier this country has ever produced, and what I want to tell you is that he believes lots more of your cooperative ideas than you think he does, and if you want to consult anybody about the big business of cooperation, he is the man to consult, because he believes in you and you can rely on him.

He slipped away, then, and about 10 minutes later I was steered against Mr. Warburg himself, and he said to me, "You are right; you are absolutely right on this cooperative idea. I want to let you know that the big bankers are with you." He said, "I want to let you know now, so that you will not start anything on cooperative banking and turn them against you."

I said—

> Mr. Warburg, the heaviest burden that we have to carry down in the country is this accumulation of surplus credit in New York for speculation, and then the deflation policy of the Federal Reserve Board of which you were once a member. I have already prepared, and to-morrow I am going to offer, an amendment to the Lenroot bill to authorize the establishment of cooperative national banks.

That was the intermediate credit act that was then pending to authorize the establishment of cooperative national banks.

That ended my conversation with Mr. Warburg, and we have not had any since.

Senator FLETCHER. Mr. Meyer, turning away from this very interesting subject which Senator Brookhart has been asking about, we are all concerned, of course, greatly in the present depressed condition of the country. Various people have various views about the causes of it and how to remedy it. I do not know that the Federal

Reserve Board can deal with this subject at all, but I have been struck by an article which has been very widely distributed, I think, anonymously, but it reads like the man knows what he is talking about. For instance, he says, after giving a list of 25 stocks, "The gross loss to the public on the 25 stocks given was above $17,000,000,-000. And this on 25 stocks alone! But figures make dull reading."

And he lists those 25 stocks and bonds which can be put into the record if you like.

(The names of the companies referred to are as follows:)

Allegheny Corporation.
American Superpower.
American Telephone & Telegraph.
Bendix Aviation.
Case Threshing Machine.
Cairo de Pasco.
Columbia Graphophone.
Commonwealth Southern.
Congoleum Nairn.
Consolidated Gas.
Continental Oil.
Electric Bond and Share.
Erie Railroad.
General Electric.
General Motors.
Gold Dust.
International Telephone and Telegraph.
Johns-Mauville.
Kennecott Copper.
Montgomery Ward.
Nevada Copper.
Radio Corporation of America.
Standard Brands.
United States Steel.
United Corporation.

Seventeen billion one hundred sixty-two million nine hundred thousand dollars was lost in September, 1929, and then in 1930 there was even a greater slump, and he charges the whole trouble in this country to that situation.

I do not know that I follow him there. For instance, he says:

Surely the perpendicular declines of November, 1929, and the long-drawn-out, even more depressing, slump of 1930, which has followed the manipulated rise of last spring (when stocks again were unloaded in volume at the highest prices then humanly possible), have caused the present deplorable conditions. Just as surely, because conversely, any substantial recovery in stock prices would at once improve confidence and greatly mitigate the various demoralizing evils from which the country is now suffering, and gradually bring back normal prosperity.

He suggests as a remedy that the New York Stock Exchange should be regulated in order to cure that situation. First, he proposes Federal incorporation of all stock exchanges.

Second, absolute prohibition of stock "split-ups" and kindred devices.

Third, the appointment of a Federal commission, experts in finance, auditing and economics, to check up, pass upon and consent to all listings.

Fourth, to hold to some measure of responsibility those bankers who sponsor and profit from the sale of overcapitalized stock and bond issues.

That is his remedy. I do not know whether the Federal Reserve Board can have any influence or effect in that situation or not. He thinks that is the remedy, and he thinks prosperity will be restored if those things are accomplished.

Has the Federal Reserve Board anything to do with that situation at all?

Mr. MEYER. Not under the present law, certainly.

Senator FLETCHER. For instance, these listings of overcapitalized stocks?

Mr. MEYER. It has nothing to do with that; not under the existing law.

Senator FLETCHER. Now, one other question. With reference to business ills being laid to a big gold reserve, Mr. Roberts, vice president of the National City Bank, in an article says:

> Undoubtedly the abnormal distribution of gold resulting from the war was to the disadvantage of business the world over. It disturbed the normal equilibrium in world affairs upon which prosperity depends, and I venture to say that it did as much or more harm in the United States than elsewhere. It disturbed normal conditions in the United States while supplying the basis for the greatest inflation of credit and the wildest period of speculation ever known anywhere.

Has the Federal Reserve Board any way by which it could influence the supply of gold in the United States?

Mr. MEYER. That is a question. Some people think that it is a matter with the banks. Of course the board does not do business, but some people think that the banks of the system can control such things. But most people disagree with that, because the forces operating which affect them are very complex and numerous and have various motivations. For instance, as long as people in other parts of the world feel more confidence in American banks than they do in other banks, by which I mean they feel that they can always get their money whenever they want it, and that it will be paid in gold, the increasing tendency is to deposit money in the United States.

What people like Mr. Roberts are talking about seems to be that somebody or a group or a system, after the gold finds its way into American banks, would get it into some other bank or some other channel where it is needed. But the practicability of that has not been demonstrated. I think people underestimate, Senator, the constant tendency of bankers and individuals and others all over the world to have a certain amount of money in America and investments in America.

But on the point of whether the world disturbance makes the gold and the money flow to America, or the flow of gold to America makes the world disturbance, you can take your choice. Anybody can.

He says the world disturbance is produced by it. Other people say it is the world disturbance that produces that result. It is like the hen and the egg—which comes first?

Senator FLETCHER. I was wondering whether, through the Federal reserve system, there could be any sort of regulation of this supply of gold moving in and moving out.

Mr. MEYER. That was one of the things that caused the discussion in 1927, from what I have heard and read, that the Federal reserve system thought it would be desirable to have gold move out. Maybe too much moved out or maybe it kept moving too long, I do not know; but it did not apparently work in a satisfactory way.

As a member of the board temporarily, I would like to ask you, do you think the board should control those things with any small group of men?

Senator FLETCHER. I confess I am not an expert on these questions at all. I do not know very much about it. I am trying to find out something.

Mr. MEYER. There is nothing in the act that particularly puts the responsibility upon the Federal Reserve Board of moving the gold supply of the country up or down.

Senator FLETCHER. I think the Federal reserve system should have a good deal of influence there. That is just my idea. They know the situation and condition and they would be able to ascertain whether an oversupply of gold invites depression or what the effect is, and they might have an influence, with the banks at least.

Here is a statement from the Irving Trust Co. of New York, dated January 17, 1931 It says:

Another heritage from 1930 is the unsolved problem of silver. A new low record of 28½ cents an ounce was registered on January 9, 1931. The debacle clearly is not due to overproduction, but to legislation. As a matter of fact, the world output during 1930 declined 17,000,000 ounces from the previous year, but the price declined from an average of 45 cents an ounce in January to 32.635 cents in December, or approximately 27.5 per cent. The Indian Government threw about 29,500,000 ounces on the market during the past year, and the demonetization in French Indo-China another 22,000,000 ounces. Maldistribution of monetary gold is another major problem which is perhaps not unrelated to the severe decline in commodity prices. The total monetary gold supplies of 45 countries including Russia are approximately $10,900,000,000. Of this amount the United States and France together hold $6,745,000,000, or nearly 62 per cent.

The United States holding much more than France, I think.

Our business, our trade, our commerce, our commodity prices, are affected by these silver using countries being in this situation, China and India and other countries.

Mr. MEYER. I have been reading some memoranda and articles that have been circulated, and I have been very interested as you read from that article that the cause of the trouble is attributed to the action of the Indian Government and the Indo-Chinese Government. I was rather interested in the fact that cotton exports to China for the first 11 months of 1930, as reported by the Department of Commerce, increased about a hundred per cent in bales. Of course, as somebody said, China does not buy by selling silver; it buys by selling goods. That may be true to a great extent, and still the silver situation may be an unfavorable factor. There is civil war in China and a social and political disturbance in India. How much is due to these things and how much to economic conditions I am not prepared to say. Those are all important questions to study. You, of course, are well aware that the Federal Reserve Board and system has no control over the price of silver or anything to do with the silver market.

Senator FLETCHER. I can conceive of how it could affect it by way of using its influence; but of course the people in China would not like to make contracts for cotton when they do not know what they have got to pay for it. There may be a drop in silver the next day and the whole thing would go to smash.

Mr. MEYER. They are carrying stocks of cotton in China; I just happened to hear of that some weeks ago. So they do not have to speculate so much in the exchange.

Senator FLETCHER. I think maybe we can do something about that. We are trying to see if we can not get England away from that position with reference to India.

Mr. MEYER. Of course that is principally a problem which has to do with British-Indian policy.

Senator FLETCHER. But this maldistribution of the silver and gold also is greatly responsible for this decline.

Mr. MEYER. It is well to bear in mind, of course, that while we have 48 per cent of the world supply of gold in the United States we have more than that percentage of the bank liabilities. Sometimes when they talk about the United States they forget how big an economic factor in the total world economic situation the United States is.

Of course it is the habit of people in times like these to criticize. It is the regular thing. I do not want to limit it. I am in favor of full and free discussion. By that we sometimes get results. But one should not jump at conclusions that everything is wrong from the fact that there is something wrong. You have to be careful in analyzing in order to get at the facts.

Senator FLETCHER. Do you think the Federal Reserve Board can have much to do with foreign financing and international banking?

Mr. MEYER. The Federal Reserve Board has not anything to do with it under the law, so far as I know, Senator.

Senator FLETCHER. I think that is all.

Senator BROOKHART. I have a few more questions.

If a cooperative system were established and developed in the United States, something as I have described it, do you think it would stabilize business as it has done in Great Britain?

Mr. MEYER. Senator, that is a hypothetical question. Everything would depend on what was worked out and how it was worked out. In Great Britain they do not have conditions stabilized at all, do they? They are extremely unstabilized.

Senator BROOKHART. I want to call your attention to a chart here of stock values of various countries. That is the exchange's own chart. I call your attention to the line for England [indicating].

Mr. MEYER. It ends in January, 1928. Of course you find much more violent fluctuations in 1928, 1929, and 1930 in the London market.

Senator BROOKHART. I have them on a chart on the Senate wall now. Our panic caused some little wobbling of them, but they are slight compared with our own.

Mr. MEYER. You are likely to find fluctuations in a young country like the United States greater than fluctuations in an old, settled community.

Senator BROOKHART. I can not say that. I think in France it fluctuated quite as much as in the United States.

I would like to have the committee look at this chart and then also look at the one I have hung on the wall that brings this nearly up to date.

Senator CAREY. You mean, on the wall in the Senate Chamber?

Senator BROOKHART. Yes. The one I have on the wall was made by the Federal Reserve Board, or by Mr. Cunningham and Mr. James.

Mr. MEYER. We are always glad to cooperate in giving any facts or information.

Senator BROOKHART. That is a chart made by the New York Stock Exchange. I did not make it.

There are a few other questions that I do not care much about, but Mr. Meyer asked me what I had done to correct this situation——

Mr. MEYER. I was just joking, in a way, Senator. I do not want to hold you responsible any more than I think you ought to hold me responsible.

Senator BROOKHART. I am very glad to be held responsible for what I have done. I might ask a few of these questions. You said, Why should not the legislature reduce the deposit rate out in our country?

I offered an amendment to the Federal reserve act to fix a deposit rate of 2 per cent for redeposits for member banks of the Reserve banks.

Senator GOLDSBOROUGH. You mean, the banks putting in their reserves?

Senator BROOKHART. Yes. And then I prohibited any other bank from paying and interest rate for redeposit so that all the surplus credit would go to the Reserve bank.

That is somewhat in line with your suggestion of controlling deposits out in our country, is it not?

Mr. MEYER. No. I had more in mind the high rates paid by some commercial banks for deposits.

Senator BROOKHART. I understand; but it is the same principle, is the same principle, is it not?

Mr. MEYER. I do not know that it is. I do not think so.

Senator BROOKHART. The reserve bank is doing the same thing for banks that a bank does for individuals?

Mr. Meyer. A small part of the resources of the country as a whole would go into the reserve banks.

Senator BROOKHART. I further provided that the rediscount rate should be 3 per cent. Would not that have a tendency to stabilize things more than by pushing the rate up and down?

Mr. MEYER. There is a variation in demand and supply, and I do not see how any one rate could be fixed. Circumstances and times change, and it would not seem to me to be practical.

Senator BROOKHART. These cooperatives have made it practical, have absolutely fixed the earnings on capital as the basis of their whole system. No capital can have a speculative value in a cooperative enterprise, because you know what it is going to get when you start. That has stabilized business as we have seen in Great Britain, when Great Britain was hit a hundred times harder by the war than we were, and there are many more reasons why they should have ups and downs than we have; so that some of the same kind of rules would have saved some of this 92 per cent failure. Have you any opinion about that?

Mr. MEYER. No. Conditions vary in different countries.

Senator BROOKHART. If banks out in our country, for instance, could rediscount at 3 per cent, I think after a time that might even be reduced, and we might accumulate more surplus than we would need. Then they could afford to loan farmers for 5 per cent, could they not?

Mr. MEYER. I do not know.

Senator BROOKHART. If the deposit rate was reduced accordingly. It was suggested when I offered this amendment that it would drive the business all into the State banks. Of course, I extended the language of the Federal Reserve Act in reference to prohibiting rediscounts of speculative paper. I extended that to original bank loans in the member banks and prohibited them from making a speculative loan in the same language that the reserve banks are prohibited from rediscounting a speculative loan. Is there not the same reason for doing that as there is for prohibiting the rediscount?

Mr. MEYER. It would involve a great deal of judgment as to what was a speculative loan. It would be very difficult to interpret and enforce.

Senator BROOKHART. Have you not enforced it?

Mr. MEYER. It involves the security on which the rediscount is based. But I would not, if I were a farmer, like to have a banker say that he can carry my paper for three months, but if it is carried three and a half months it is speculative.

Senator BROOKHART. In a cooperative system we will never have any arguments over a technicality like that. Among farmers that does not happen in a cooperative system.

Mr. MEYER. Speculation is a mental operation, and nobody can exactly say where it begins and ends.

Senator BROOKHART. I asked you to examine the matter of Senator Glass's proposition of levying a 5 per cent tax on all sales in stock exchanges where the stock was resold within 60 days. Have you done that?

Mr. MEYER. No, I did not think you asked me to. I am going to testify before the Glass committee, and if he asks me I will examine it and give him my opinion.

Senator BROOKHART. You have no opinion now?

Mr. MEYER. No; I have not studied it.

Senator BROOKHART. I supported Senator Glass' amendment very ardently. I thought it was a very excellent way to raise revenue and stop speculation.

Mr. MEYER. I would like to hear some of the testimony about that.

Senator BROOKHART. Another think: I have provided that State banks must comply with these rules or be denied the use of the United States mails and interstate commerce. I thought that would not drive the business into the State banks.

That is what I have done toward remedying this situation.

(Whereupon, at 4.45 o'clock p. m., the subcommittee adjourned to the call of the chairman.)

# NOMINATION OF EUGENE MEYER, TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

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**THURSDAY, FEBRUARY 5, 1931**

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY,
*Washington, D. C.*

The subcommittee met, pursuant to the call of the chairman, at 2 o'clock p. m., in the committee room of the Senate Committee on Military Affairs, Capitol Building, Senator Robert D. Carey, presiding.

Present: Senators Carey (chairman of the subcommittee), Goldsborough, Brookhart, Wagner, and Fletcher.

Senator CAREY. The committee will please come to order.

Senator BROOKHART. Mr. Chairman, the first witness will be Congressman Rainey.

## TESTIMONY OF HON. HENRY T. RAINEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

(The witness was duly sworn by the chairman.)

Senator CAREY. Will you please state your name for the record?

Representative RAINEY. Henry T. Rainey, Member of Congress, Carrollton, Ill.

I appear here at the request of Senator Brookhart in opposition to the confirmation of Mr. Meyer for reasons which I shall endeavor to make plain to the committee.

I am meeting Mr. Meyer to-day for the first time. I have great respect for him, but I am not at all attracted by his career, particularly so far as his service as farm loan commissioner and head of that board is concerned. I want, in order to make myself perfectly plain at the outset, to charge that he has ruined the joint stock land bank system of this country, and has intentionally done so; and I shall endeavor to furnish reasons for that belief.

I want to charge, in the second place, that his blundering has ruined the Federal land banks system.

### THE WRECKING OF THE BANKS

When Mr. Meyer on the 10th day of May, 1927, became farm loan commissioner and the head of that important board nearly all of these joint stock land banks, although the farm depression had been in progress for five or six years, were getting along well, in view of the conditions which surrounded them; their bonds were selling at par on the market and their stocks had depreciated but little.

Senator CAREY. May I interrupt you a minute? What year was it that their bonds fell below par?

Representative RAINEY. I do not know just what year it was.

Senator CAREY. Was it in 1920 or 1921?

Representative RAINEY. No; it was much later than that. They were at par substantially and most of these banks were able to issue bonds and to place them on the market at the time Mr. Meyer was appointed to this important position.

Senator CAREY. I am referring to the joint-stock land banks.

Representative RAINEY. Yes; the joint-stock land banks. To-day the joint-stock land bank system is ruined. I have here the report as to the price on the market of joint-stock land bank bonds on the second day of February. The 5 per cent bonds of the Atlanta Co. were selling at 45. That is, they were bid at 45, and I am quoting the bid column as I go through this report. The Atlantic Joint Stock Land Bank 5 per cent bonds were selling at 45. The Burlington were selling at 54; the California at 84; the Central Iowa at 41, and so forth, throughout the entire list.

Only three of these banks were, so far as the market quotations show, able to function on the second day of February of this year and place bond issues or sell their bonds on the market if they desired to do so. The first trust of Dallas 5's were selling at 99 bid. The first trust of Chicago bonds were selling apparently at 100 and 102.

Now, both of these banks are owned and controlled by the First Trust & Savings Bank of Chicago, and that is the reason these prices are quoted. But the First Trust & Savings Bank of Chicago has announced, so I am reliably informed, that it proposes now, on account of the disrepute into which the joint-stock land bank system has fallen, to liquidate these two banks. That is going to happen in the near future, just as soon as they can bring it about.

The Fletcher Joint Stock Land Bank's 5½'s were selling at 98 bid and 5 per cent bonds at 94. But the Fletcher bank is owned by a trust company and its stock and its bonds are closely held. I am not advised whether they intend to liquidate or not, but I would not be surprised.

All of these other banks are gone. Banks whose undefaulted bonds are selling as low as these bonds are can never hope to function again as banks. The wreckage of that system is absolutely complete.

Now, while that has been going on the stock of these banks has fallen until the stock of the Chicago bank is selling for $3 bid and $5 asked; of the First Carolinas $2 bid and $5 asked; of the Lincoln $27 bid and $32 asked, and there are many other banks whose stock is quoted low.

It will be interesting, whenever there is an investigation of these banks, to find out what has become of this stock. My information is that it is being bought up by street men with no financial responsibility, who are holding it for somebody else, and when the time comes this stock will go up in the market.

A POSSIBLE MOTIVE

An accountant in St. Louis sent me the other day a statement, and he figured out that the stock of that bank has a potential value to-day of 1,800 to 1. The holders of the stocks in these banks do not know what is going to happen to them.

About the only affirmative proposition for which the Federal Farm Loan Board stands is to get through legislation which will override the decision of December, 1929, or perhaps it was in November, of the Supreme Court of the United States clarifying the law and holding that in order to assess double liability against stockholders, the Federal Farm Loan Board must go into a court of equity in order to give the bondholders their day in court. From that time until this the Treasury Department and the Federal Farm Loan Board have confined their attention principally to getting through a bill which will authorize the Federal Farm Loan Board to arbitrarily impose a double liability on this stock. When it is imposed then the wreck can be complete. When that authority is granted it is possible for the Federal Farm Loan Board to pick out two of these banks or one of them somewhere, arbitrarily impose the double liability, and then complete the wreck. Then when they are ready, the stock of the others can go up on the market.

Take a bank in this condition, and more than one of them is in this condition; take a bank operating with capital stock of seven or eight hundred dollars and which owns a million dollars and a half of real estate, which will happen soon with reference to some of these banks when this 1930 report comes out, which I assume will be after the adjournment of this Congress. Who owns that land? The stockholders own it. If there is six or seven hundred thousand dollars worth of stock outstanding, and if that stock owns a million dollars or a million and a half dollars worth of land, leaving out of the question entirely the seasoned mortgages, which belong also to the stockholders, that stock, although it may be selling for 4 and 8, and even less than that to-day, is worth two for one right now.

So whenever you have an examination by a joint committee of the House and Senate you will have the right to find out from the books of these banks who is buying this stock, and then examine the purchasers of this stock under oath and compel them to disclose for whom they are buying it. When that happens a scandal will develop in this country which may surprise all of us.

Senator WAGNER. Congressman, do you know the individuals who are buying the stock now?

Representative RAINEY. No; I do not know any of them and nobody else does, so far as I know.

Senator WAGNER. It is a pretty serious charge, and I wondered whether you had any more than a rumor.

Representative RAINEY. Nothing more than the opinions that I get from brokers.

Senator WAGNER. On what was their opinion based, some definite purchase?

Representative RAINEY. They did not give me any definite purchases, but they said they understood that that was being done.

Senator WAGNER. I wondered whether you thought that was sufficient for any reasonable person to draw a conclusion from.

Senator BROOKHART. I got the impression that this Giannini——

Senator WAGNER. I will not ask you to guess, Senator, because it is dangerous to use names based upon a guess.

Representative RAINEY. I am not going to use any names.

Senator WAGNER. I think if you know you ought to.

Representative RAINEY. But an investigation of this subject might disclose this scandal. These banks are liquidating; they are buying their bonds at less than 50, some of them less than 30, bonds that have never defaulted. As fast as they buy in their own bonds, using their amortization payments, they are extinguishing the indebtedness of that particular bank, and they are making the stock more and more potentially valuable.

THE HUGHES OPINION

And may I call attention to the dangers which confront this Government at the present time? When Mr. Norris was at the head of the Federal Farm Loan Board, at the request of Griswold & Co., of Baltimore—I mean Alexander Brown & Co., of New York—Mr. Griswold is the active man there in these bond matters—they obtained an opinion from the leader of the American bar as to the liability of the Government for the losses of these banks, and the leader of the American bar rendered an opinion, which is hidden away now in the files of the Federal Farm Loan Bureau, in which he held that the good faith and credit of the United States Government were back of the Federal Land Bank bonds, and I understand also were back of the joint-stock land bank bonds.

Senator FLETCHER. Does he say they were back of the joint stock?

Representative RAINEY. I think so. I never saw the opinion. At any rate, I know he said the other.

Senator GOLDSBOROUGH. Who rendered the opinion?

Representative RAINEY. The opinion was prepared by Charles Evans Hughes, now Chief Justice of the Supreme Court of the United States; and, if any case should arise and should ever reach that court, he would hold that way again, if he does not hold that the giving out of that opinion when he was practicing law—and that occurred after the presidential election in which he was interested and before his appointment to his present position—if he does not hold that would make it improper for him to participate in any opinion that the Supreme Court might render.

Senator FLETCHER. The opinion was rendered at the request of the Farm Loan Board?

Representative RAINEY. On the initiative of Alexander Brown & Co., who are at the head of the group of brokers who distribute these bonds, and requested by the Federal Farm Loan Board, and they paid Chief Justice Hughes for that opinion. Since he rendered it, he has been requested more than once by the Treasury Department to modify it, but he has steadfastly refused, and it stands to-day.

Senator WAGNER. May I get what is the point about that? I mean supposing that were finally determined by the court to be the fact.

Representative RAINEY. Then the Federal Government would have to make good these losses.

Senator WAGNER. No; I mean in relation to our matter here.

Representative RAINEY. Incidentally, I want to show that Mr. Meyer should not be given the important position he now occupies when his conduct and his administration of the Federal Farm Loan Banks has resulted in this situation which may involve this Government in great losses and large appropriations.

Senator WAGNER. I take it that you are going to tell us exactly what the acts of Mr. Meyer were that brought about these conditions.

Representative RAINEY. Yes; I am going to. Now, Mr. Meyer, when he nominally resigned his position at the head of the Federal Farm Loan Board, did not really cease his activities. He went right along. He left back of him an able body of wreckers and they are continuing his policies and are consulting with him.

Even before his appointment—this can not be proven by definite evidence, perhaps—my understanding is that he was frequently in consultation with the Secretary of the Treasury and especially with Assistant Secretary Dewey in the matter of these banks.

### RECEIVERSHIPS

Just before his appointment the Chicago Joint Stock Land Bank, the Dallas Joint Stock Land Bank, the Kansas City bank, the Des Moines bank, and the New York bank were all functioning. Their bonds were selling at par. The farm loan commissioner was called to the office of the Secretary of the Treasury and was advised by the Secretary and by Mr. Dewey that they understood some of these joint-stock land banks were in difficulties. He agreed to that proposition and said that some of them were, notably, the Greenville Joint Stock Land Bank, a small bank in Illinois, and one other; but he insisted that steps were being taken to consolidate those banks with stronger banks and get them out of their difficulties. He also advised the Secretary that he had imparted to him this information before, and then he had an understanding with the Secretary that nothing would be done without the consent and the approval of the Federal Farm Loan Board.

A few days afterwards United States marshals, with pistols strapped at their sides, sometimes with drawn pistols, entered these five banks and demanded that the banks be turned over to them. Word went all over the United States at once through the newspapers as to what had happened, and this led to the breach with the old Federal Farm Loan Board and to the resignation of three of its members—two of them stayed and are there to-day—and to the appointment of Mr. Meyer at the head of that board.

Senator CAREY. Who authorized the marshals to take over the banks, the Secretary of the Treasury or the Farm Board?

Representative RAINEY. Assistant Secretary Dewey.

Senator FLETCHER. The Farm Board had not anything to do with it?

Representative RAINEY. The farm board had nothing to do with it; that is, the farm board as then constituted. The farm board did not know anything about it until it was done.

Senator FLETCHER. They were all closed on the same day were they not?

Representative RAINEY. I think they were; at any rate, very near together; and that started the ruin of all of these banks.

Senator CAREY. How do you connect Mr. Meyer with that?

Representative RAINEY. Because I think he was in consultation with the Secretary of the Treasury and Mr. Dewey all along.

Senator WAGNER. Was he a member of the farm board?

Representative RAINEY. No; this was immediately prior to his appointment.

Senator GOLDSBOROUGH. Would you be good enough to give me the approximate date of that opinion of Mr. Hughes?

Representative RAINEY. It was rendered after his campaign for the presidency and while he was practicing law and before his appointment to the Supreme Court, considerably before his appointment to the Supreme Court.

If the Federal Farm Loan Board can not find that opinion for you gentlemen—and it ought to be printed now and see the light of day—I think I know where I can get you a copy, although I have not even seen a copy.

Senator CAREY. How long ago did you say that opinion was rendered by Mr. Hughes?

Representative RAINEY. I said it was rendered while Mr. Norris was at the head of the Farm Loan Board. I know it was after Mr. Hughes's campaign for the presidency.

The most prominent man in the United States in these joint stock land banks was Guy Huston, of Chicago. He was the president, I think, of the Chicago Joint Stock Land bank and also of the New York Joint Stock Land bank, an important official in the Milwaukee Bank, and was connected with at least one other bank and perhaps two other banks.

Senator FLETCHER. Before you pass from that, at the time there were three resignations called for, Cooper, Landis, and Jones?

Representative RAINEY. Yes, sir.

Senator FLETCHER. And Mr. Meyer, Mr. Cooksey, and Mr. Harrison were all appointed at the same time.

Representative RAINEY. Resignations were called for in the cases of Governor Cooper, who was the farm loan commissioner then, Mr. Landis, and Mr. Jones. Mr. Gill and Mr. Pettijohn remained on the board and they are on the board to this day.

### THE GUY HUSTON OUTRAGE

Guy Huston, just before the appointment of Mr. Meyer, was the most prominent land bank president in the United States. He was president of these two banks. I have given their names. He was connected with some other banks. He owned, himself personally, $180,000 worth of stock in the Chicago Joint Stock Land bank. That is probably the largest amount of stock ever owned in any of these banks by any individual. He helped build up the system. I think he owned stock in other banks, too.

In order to complete the wreckage of this system, or to initiate it effectively, it was necessary to get rid of Guy Huston, and this is the way they did it: He was indicted in the Federal District Court at Toledo, Ohio. The principal charge against him was that in the case of the Joint Stock Land Bank of Milwaukee, as I understand it, those bonds had depreciated on the market. Therefore, he was charged with conspiracy to use the mails to defraud. That indictment was quashed.

Then the Treasury Department and the Department of Justice, acting on its initiative, went to Boston and got another indictment there against him. Before they got any indictment, however, they sent their indictment expert from the Department of Justice out into this area to look into the facts and to find out whether that could be done. He refused to draw the indictment. They sent a more obedient official and he prepared the indictment and the indictment was returned.

Senator BROOKHART. The Department of Justice official was Judge Pagan?

Representative RAINEY. I think you are right.

Senator WAGNER. Who was Attorney General at the time?

Senator BROOKHART. I think Mr. Sargent was.

Senator WAGNER. What was the time?

Representative RAINEY. This was early in 1927, when this first indictment was returned, or late in 1926, I am not sure which.

Senator WAGNER. Then it must have been Mr. Sargent.

Representative RAINEY. It might have been. At any rate, that Toledo indictment was quashed. Then they got out another indictment charging the same thing, conspiracy with intent to defraud, from the district court in Boston and issued a fugitive warrant against Guy Huston.

Senator WAGNER. Do you mind interruptions?

Representative RAINEY. Not at all.

Mr. WAGNER. I have a peculiar failing; I would like to be a little specific. When you say "they," you mean Attorney General Sargent directed this situation?

Representative RAINEY. Yes; on the initiative of the Treasury Department. Almost any Attorney General would have directed almost any indictment to be returned if any cabinet officer asked it to be done.

Senator WAGNER. You mean Secretary Mellon?

Representative RAINEY. Yes; or Assistant Secretary Dewey acting through him. And I might say in passing that Secretary Dewey, who has been a consistent enemy always—of course, he is out of the Treasury Department now—of the entire land bank system, was prominently connected in Chicago before he came here and commenced his war against the system with some mortgage bankers, farm mortgage bankers' organizations in Chicago, and the farm land banks were impinging upon the field of that company.

I mention that to show a possible reason for his conduct in these matters.

When they return the Boston indictment they issued a fugitive warrant against Guy Huston. When he heard the warrant was out he went into the district court at Toledo and asked that it be served so that he could give bond. They refused to do it. They admitted afterwards that the reason for refusing to do it was that they wanted to arrest him under circumstances that would humiliate him and his associates.

Senator CAREY. Who made that statement?

Representative RAINEY. Guy Huston himself made that statement to me.

Senator WAGNER. Who was the person that made the statement to Mr. Huston?

Representative RAINEY. I do not know. I presume it was some of the officials connected with the serving of the warrant, somebody from the Department of Justice.

At any rate, this is what happened: The fugitive warrant was not served until later. He was never tried on that Boston indictment. On the 10th day of May, 1927, Mr. Meyer took the oath of office as farm loan commissioner. On the 19th day of May, nine days after he qualified and had full control of the entire machinery, which he had had partially even before that time, Guy Huston started on the Century Limited from Chicago to New York. That train was stopped early in the night in Ohio, at Toledo, Ohio, and United States Marshals went into the sleeping car where Guy Huston was and dragged him out and served that warrant.

Senator FLETCHER. Mr. Rainey, do you remember that case the Supreme Court decided with reference to the double assessment? Do you remember the name of the case?

Representative RAINEY. No, sir; but I can get it for you, Senator.

Senator FLETCHER. I think I have a reference to it. And that Fletcher Bank, do you know where that is located?

Representative RAINEY. In Indiana, I think.

Mr. MEYER. Indianapolis.

Representative RAINEY. Indianapolis, yes.

Senator CAREY. Mr. Rainey, you may proceed.

Representative RAINEY. We were discussing the question of the serving of that fugitive warrant in that dramatic and impressive way. It was served in the nighttime. The newspapers had been notified, the morning papers, all over the United States.

Senator WAGNER. Congressman, whom do you hold responsible for that?

Representative RAINEY. I am holding Mr. Meyer responsible for it.

Senator WAGNER. For that dramatic arrest?

Representative RAINEY. Yes; he was in charge of the whole thing.

Senator WAGNER. Is there anything more than your statement which shows that he was in charge of this whole thing? Anything more than your statements?

Representative RAINEY. He had been nine days Farm Loan Commissioner at that time, and was in control of the whole thing.

Senator WAGNER. What I want to know is this: Is there any more than your conclusion, simply, from the fact that he was chairman of this Farm Loan Board, or a member of it that he directed the method by which this gentleman was to be apprehended? I want to find out what evidence you have of that.

Representative RAINEY. Well, if somebody had stolen a horse from me and I afterwards found it in his possession, I would think that he stole it.

Now, the newspapers were notified——

Senator WAGNER (Interposing). Is that your answer to what I asked you?

Representative RAINEY. Yes, sir.

Senator WAGNER. That is what I wanted to find out.

Represenative RAINEY. The newspapers were told to hold their headlines in the morning papers of the next day for a " Government bust"; that is the language of the reporters, as I understand it. Reporters were there by invitation, from as far away as 500 miles. They knew it was going to happen before Guy Huston did.

Senator CAREY. You do not know who notified them?

Representative RAINEY. I do not know how it was sent out, but it was part of the conspiracy to discredit Mr. Huston and his bank and his associates.

Senator WAGNER. Congressman, may I ask you who was notified about this incident; what individuals, and what particular newspapers?

Representative RAINEY. My information is that a great many newspaper reporters were present.

Senator WAGNER. I know, but do you know any particular individuals or newspapers, so that the committee might inquire of them?

Representative RAINEY. No. You might call Guy Huston, himself, and he will give you the names, and then you can call them.

Photographers were there with flash lights, and the arrest was effected in that way. He demanded to be taken before the district judge there in Toledo. He did not have any bondsman present, and he would have been thrown into jail if he had not been able to establish the fact that he had $25,000 on deposit in a Chicago bank. Then he was released until he could get his bond.

He was never tried under that indictment, and they never intended to try him under that indictment. The indictment returned in the Toledo court had been quashed, and another indictment was obtained, I think, in a Milwaukee court, that was the indictment under which he was tried. Perhaps it was a Milwaukee court. I think it was.

Senator BROOKHART. It was a Minneapolis court.

Representative RAINEY. Yes; the Minneapolis court.

Senator WAGNER. You mean the grand jury?

Representative RAINEY. Yes; the grand jury in Minneapolis. That is true. He was tried and convicted and sentenced to 10 years in the penitentiary.

Senator CAREY. What was the charge?

Representative RAINEY. Conspiracy to use the mails for the purpose of defrauding. And the conspiracy charged was that this stock had depreciated on the market prior to the time the indictment was returned—the stock of one of his banks, probably the Milwaukee bank. I am not sure which bank.

He took the case up to the United States Circuit Court of Appeals, and a sweeping decision was rendered in that court in favor of Mr. Huston, and a scathing denunciation of the methods which brought about his conviction.

And recently, within the last two or three months, an investigation was made in Chicago, in the district attorney's office, and they issued a statement completely exonerating Guy Huston and all his associates from any improper conduct in connection with the banks in which he was interested. And so the matter stands.

Now, the man who was at the head of the Federal Farm Loan Board when that damnable record was made ought not to be given this more responsible position to which he now aspires. Within three months from the date of that dramatic and spectacular arrest the stock of these joint stock land banks depreciated $100,000,000.

Now, in addition to completely wrecking the Joint Stock Land Bank system at a time when that system is most needed, he has blundered along and through his policies he has ruined the other system.

I started out in my investigation of this subject a little over a year ago, because I had a great many of my constituents who owned stock in the Kansas City Joint Joint Stock Land Bank——

Senator CAREY (interposing). That bank failed, did it not?

Representative RAINEY. Yes. That was the first of three to be placed in the hands of a receiver.

Senator CAREY. I thought so.

Representative RAINEY. That occurred just before Mr. Meyer assumed his position at the head of the Federal Farm Loan Board. And that bank, the stockholders' committee insisted, was perfectly solvent when it was closed by order of the Federal Farm Loan Board.

### THE KANSAS CITY JOINT STOCK LAND BANK

The offense committed out there by the president of that bank was this: He also had charge of a water power development in Missouri, or perhaps in Arkansas, or perhaps in both States, which would men the flooding of a large amount of land, and a great many farms. The Kansas City Joint Stock Land bank had taken over a great many farms at that time, and the president of the bank was also at the head of this development, and he had a system of trading these farms that he had taken over to the farmers who were to be flooded out in this water power development. And that met with the approval of the Farm Loan Board; but, afterwards, when Mr. Mellon looked into it, or Mr. Dewey, or both of them, they did not approve of that; and although a statement had just been issued by the Federal Farm Loan Board their regular report showing that this bank was perfectly solvent a short time before, they went in there with United States marshals and seized the bank, some of them with drawn revolvers. This was the ruin of that bank. And the other two banks soon afterwards had receivers appointed at the instance of the Federal Farm Loan Board, and this receivership was created after Mr. Meyer assumed office.

Senator WAGNER. Do I understand this first bank to which you referred——

Representative RAINEY (interposing). The Kansas City Joint Stock Land bank.

Senator WAGNER. That before Mr. Meyer became a member.

Representative RAINEY. Yes; a little before.

Senator BROOKHART. That is, during the period that Mr. Meyer was laying the foundation to get control of this?

Representative RAINEY. Yes; I think so. He will probably deny this, but I think so.

SECRETARY MELLON

Now, I have not any criticism to make of Mr. Mellon at all. He is intellectually honest. He is a pleasant, intellectual, agreeable old gentleman, easily influenced. The way to influence Mr. Mellon is to assure him that he is the greatest Secretary of the Treasury we have ever had since Hamilton; and whenever that statement is made by an orator at a banquet table surrounded by these fat, sleek, muggy millionaires who are under his influence, he thrills to it and agrees to it, and that is all. He sits comfortably amid his automatically accumulating millons—and they accumulate rapidly and automatically now, without any effort on his part—and if they say he is the greatest Secretary of the Treasury since Hamilton he thinks they are right about everything else; he is sure they are right about that, therefore he thinks they are right about everything else. And so these influences result in this situation and are possible even though Mr. Mellon is intellectually honest. I do not think he is a financier. That is a misnomer, as I understand the term, and I am going to get back to that presently.

FEDERAL SYSTEM IN TROUBLE

The Federal land banks are now in trouble. It is the policy of Mr. Meyer, who represents a class in this country, to preserve the Federal land banks. He wants to do that and to destroy the other system because, evidently, his theory is that on account of the interlocking liabilities of borrowers in the Federal land bank system it is possible to keep the tax-free bonds of that system which are so inviting to his friends at par, or near par, and he evidently hopes by destroying the joint stock land bank system to extend the Fedderal system through the agency of branch banks, which have never been called into operation, but the Act provides for branch banks, so as to occupy the entire field. Five hundred thousand farmers to-day toil on American farms in their efforts to keep the price of those bonds at par. We are told, when we talk about a moratorium and an interest paying stay, we are told by Mr. Mellon that it would injure their morale; they must keep on at the business in which they are engaged, to wit, toiling to furnish investments which are attractive and tax-free, and if they can be maintained at par, they are much more desirable than Liberty bonds, because you can own all of them that you want to own. The holdings of Liberty bonds are limited, and you can not hold over $65,000 or $75,000. But you can hold these bonds, which carry a higher rate of interest than Liberties—you can hold $10,000,000 worth if you want to.

I started out upon the theory that the joint-stock land banks had been improperly and fraudulently administered, and that some of these people ought to be in the penitentiary who were responsible for it. As long as I confined my attacks to joint-stock land banks, and my efforts to reorganize them, or suggesting methods to the committees for reorganizing them, I got along with the Farm Board all right; but when I commenced to look into the Federal system, and when I ascertained and suggested that the Federal system was worse off, even, than the joint-stock land system, then I incurred the enmity of these wreckers whom Mr. Meyer has left back of him in charge. There never will be another issue of Federal farm land bank bonds. I have been on the carpet twice before Mr. Mellon, and I have been advised that my speeches on that subject, and my interviews were likely to disturb the financial structure of the United States, and that I ought to quit. I was advised by him last June that the Federal farm land bank system was perfectly sound; that at that time he was arranging with a group of bankers to float an issue of $20,000,000 worth of Federal farm land bank bonds, and I was interfering. I did not see how it could be done. The Federal farm land bank bonds were then selling around 96, the 4½, and that was what he wanted to issue. I did not see how he could float an issue on the market at par, I could not see how it was possible to float an issue of Federal farm land bank bonds. So as soon as I got back to my office I wrote to Mr. Griswold of Brown & Sons, who is at the head of the syndicate which sells these bonds, and asked him how soon that issue was going to make its appearance. He wrote back to me and said he had never heard of it, and there would be no issue of that kind.

At the same time I wrote to Mr. Bestor, at that time and still farm loan commissioner, and I have his reply in which he denied that such an issue was going to be made. He had never heard of it, and said we did not need it.

I wrote to the President of the Federal farm land bank at St. Louis, Mr. Netherdahl, and I have his reply denying there was going to be any issue of $20,000,000, and that it was not going to be done; that they had all the money they needed out there in those three States, and did not want it at all.

To my surprise, on the 17th day of last November, there appeared in the newspapers the official announcement of this issue of bonds. They were callable in two years, and payable in three years. And the notice stated that these bonds were to be offered by the 12 Federal land banks, and by the three or four firms operating under the direction of Mr. Griswold up here, who always circulates these issues. I think perhaps I can give you the names of them for the record, and perhaps you know who they are. The National City Co. is one of them. Alexander Brown & Co. is another. I think Forbes & Co. is another. Here they are. Alexander Brown & Sons; Harris, Forbes & Co.; Brown Bros. & Co.; Lee, Higginson & Co.; National City Co.; and the Guaranty Co. of New York. Those are the companies which always float these bonds, taking down 1 per cent commission for doing it. And those are the companies to whom were assigned and divided up this $20,000,000 issue of bonds.

I wrote to each one of these companies about this bond issue, and received back from them identical replies. I wrote to every Federal land bank president, and those who replied—and nearly all of them replied—said they did not have the bonds; they said I could get them from this group of brokers.

It was announced that these bonds were closed out at par a few hours after they were issued, and that is the way it was done. The purchasers were advised—let me see if I can find one of those letters. The purchasers were advised that these Federal land bank bonds—I am quoting now from their letters—

are especially suitable for corporations and for individuals subject to the higher surtax. For example, based upon the present asked price, the taxable equivalent yield to the corporation, subject to the 12 per cent corporation income tax, would be 4.90.

So that there was no competitive bidding for them. They are selling now at 101. I asked Mr. Bestor to advise me what collateral was deposited with the Treasury for this bond issue; how much of it consisted of Government bonds, and how much consisted of farm mortgages. And he replied evasively by saying he did not know how much; both Government bonds and farm mortgages were deposited.

Senator CAREY. Has it not been the policy of the Federal Farm Board for many years, long before Mr. Meyer had any connection with the board, to sell their bonds in that way?

Representative RAINEY. Yes, it was. The law does not require it. They need not do it that way. For a few minutes' work these brokers took down $200,000 in commissions on this issue, and the farmers are paying it, because they are charged that much more on their mortgages.

The issue of those bonds is a confession that the Federal land banks can not float long-term bonds at par. Under the theory of the Federal farm loan act these bonds were to be long-term bonds, secured by long-term mortgages, mortgages running 33 years, and more than that. They can be for a less period of time. This issue was perfectly legal, but it was unusual and unprecedented, and it is a confession that these banks can no longer float an issue at par. That issue has got to be paid in three years.

Now, with that confession and that record staring us in the face, and with those bonds now selling around 93, the 4½ per cent bonds, what is going to happen when those bonds come due? They are callable, some of them, in 1932. Those that are callable in 1932 are due in 1942, and we ought now to be making arrangements to refund those bonds when they are callable, issuing bonds with a longer maturity, but we can not do it. We are drifting along, and this Congress is doing nothing. You can not get before these committees a proposition to investigate this thing. This Congress is doing nothing, except to sit here and listen to the thunder of events as they pass. And we are plunging right along toward the greatest catastrophe that ever happened to this Nation, because we ought to pay those bonds in full when they come due. Who is going to pay them? They can only be paid by other issues of bonds. Of course, some reserves are being set up, but not enough to meet these bonds when they come due. They ought to be refunded when they are callable if we are to keep this system going.

Now, what is it that makes the bonds of the Federal system attractive to Mr. Meyer and the class he represents so efficiently and so well? When a farmer borrows from a Federal farm land bank he does more than that. He pledges his farm. He is compelled to take out 5 per cent of his loan in stock, through these numerous loan associations which are organized. And that stock is subject to a double liability. When he mortgages his farm, on every $100 the mortgage calls for, he does not get $100; he gets only $93. Five per cent goes for stock, which he never sees, and it is included in his mortgage. Three per cent goes to pay the secretary-treasurers of these national farm loan associations who are the effective grafters and schemers of this system, although they do not get much; some get $3,000 or $4,000 a year, probably. And some small additional compensation goes to them, what the National Farm Association pays them. One per cent goes to these companies who are floating the bonds; and the rest of the 7 per cent goes to pay for abstracts, opinions of attorneys, and so forth. He gets only $93.

Now, the stock he takes pays dividends—is supposed to pay dividends. But seven of these land banks have suspended dividends at the present time, and that is over half of the entire system. So these farmers are getting nothing on their stock. And their stock is liable for all the disasters that may happen in any part of the United States to any National Farm Loan Association or to any Federal farm bank operating anywhere, to the extent of their stock, and to the extent of a double liability. No wonder borrowers are getting out of it as fast as they can, especially in the territory served by these banks which have suspended dividends, they are getting loans elsewhere if they can. When the 1930 report makes its appearance, which will not be until after this congress has adjourned on the 4th of March—it will be delayed that long anyway—I predict it will show no increase, but some diminution in mortgages in some sections, owing to the fact that these frightened farmers, subjected now to the loss of dividends, and the loss of their stock, are getting out of it as fast as they can, and abandoning the system.

That is a part of the record which has been made in the matter of these banks. The bonds are, by the law, made lawful investments for fiduciary and trust funds. The banks are made government depositories under both systems. The bonds issued bear on their faces, "This bond is an instrumentality of the Government." A number of the States relying upon the Federal Government, which has failed them miserably in this matter, have also passed laws making the bonds of both systems a lawful investment for fiduciary and trust funds. They are all tax free.

During the first year of the life of these bonds, from the Farm Loan Board, and from the Agricultural Department, and from the Treasury Department, there were sent out 2,000,000 bulletins advertising these securities and telling people how safe they were. I can not get the figures for subsequent years, but if anything like that ratio has kept up, 20,000,000 documents have been issued in the United States under the authority of the Federal Government showing what a desirable investment these bonds are, and what a desirable investment the stock is, and what a desirable thing it is to borrow money under this system which the Government has so kindly provided for the farmers of this country.

And the result is—I have only detailed a part of it—the result of it all amounts to this: The Federal Government to-day rides grandly at the head of the biggest land swindle ever perpetrated in the history of the world.

Now, what are you going to do about it? The Government is going to have to do something for these banks. And that is what I have been advocating whenever I have had an opportunity, in public and in private, in speeches made upon the floor, and in addresses to committees. And that is all I have done. But I have incurred the displeasure of the Federal Farm Loan Board.

MEMBERS OF CONGRESS INTIMIDATED

If a member of Congress—and I think the same thing applies to a Senator—proposes some proposition that this board does not approve of, he commences to hear from home. In most of these districts where a man is likely to be independent enough to make trouble, they maintain a sort of legislative committee.

Senator CAREY. Is that not true of other departments as well as the Federal Farm Loan Board?

Representative RAINEY. I suppose that is true, but I know it is true of the Federal Farm Loan Board.

He commences to hear from home, and he receives advice from these secretaries-treasurers, and the directors generally in the system, because these directors sometimes get paid for their services. He begins to hear from the banks where they deposit money. He hears from the attorneys who examine the abstracts and who get a part of their income from doing that. And he is told that his conduct does not meet with the approval of the farmers in his district, and that he had better quit.

That is the system which prevails generally. I know it prevails in my case. I know these men have been stirred up against me, and I have been charging that it was done by the Federal Farm Loan Bank operating in that section, and perhaps by the Farm Board itself, or at their initiative.

Senator BROOKHART. Do you know of the Federal Farm Board or the Secretary of the Treasury taking a hand in the election of the officers of the individual land banks, with the stockholders?

HOW THE FEDERAL LAND BANKS WERE STOLEN

Representative RAINEY. Yes; they do that. They accomplish a control of those banks in this way. Now, you gentlemen who were Members of the Senate in 1923, at the close of the Sixty-seventh Congress, probably do not know what happened during the two closing days of that session. In the nighttime there passed through both House and Senate a bill creating the intermediate land bank and credit system.

Senator FLETCHER. The intermediate credit bank?

Representative RAINEY. The intermediate credit banks.

Senator BROOKHART. What year was that?

Representative RAINEY. That was 1923, that was the Sixty-seventh Congress.

Senator BROOKHART. I tried to amend that law.

Representative RAINEY. It is too bad you did not. There was injected into that bill an amendment to the Federal farm loan act which provided this: That in the future the directors of the Federal farm loan banks should be seven in number, three to be selected by the Federal Farm Loan Board, three to be selected by the borrowers in that district, and the seventh, who is to be called a director at large, to be elected in the following way: The farmer borrowers were to cast their ballots, in the manner described, for the election of the seventh director, and were to submit the three highest names to the Federal Farm Loan Board, and the Federal Farm Loan Board could then select from the three highest the seventh director. That stole the banks from the farmers. It gave entire control to the Federal Farm Loan Board, and they are responsible, whoever is at the head of it, for whatever happens to that system.

Immediately after this bill became a law—and it went through surreptitiously—and I have stated many time, and it did; you Senators did not know it was in the bill; Members of Congress did not know it was there. It passed without reading in the Senate. The original act provided for 9 directors, 6 to be elected by the farmer borrowers, and 3 to be selected by the bank, and that was fair. But the Government originally owned all the stock, and all the bonds. The war came on, and they needed $200,000,000, and the Government took up that issue of bonds, and the Government originally owned all the stock and owned all the bonds, the promise being that when the bonds were absorbed and the stock taken up by borrowers was all met, the banks would go back to the borrowers who would then own them.

The government now owns less than $300,000 worth of stock, and that is held in two banks, the Spokane Bank and probably the Berkeley Bank—I do not know. But that is the way we met the situation in 1923, by stealing the banks from the farmers.

But that is not all. After the act of 1923 was passed, the Federal Farm Loan Board advised each of the presidents of those land banks that he should get to be the seventh director, who is called the director at large, by getting the highest number of votes, so that they could not be criticized for selecting some one who did not have the highest number. Of course, the presidents were subservient, and the Farm Loan Board knew that, and so in the case of every bank, in the elections which followed—they held little conventions and called in a few over the telephone—the Federal farm land bank presidents got the highest number of votes, and they, in each instance as I understand it, became the seventh director. That completed the theft of the banks. These presidents, or some other high official in the banks, are still the directors at large.

Senator FLETCHER. This amendment also increased the membership of the Farm Loan Board from five to seven, which in my judgment, was a mistake. It was unnecessary.

Representative RAINEY. Yes; from five to seven. I think you are right about that. Yes; that was done at that time, the control by five directors selected by the Government was to cease when the bonds had been absorbed and when the stock was taken up by farmer borrowers.

Now, by resort to that kind of a method, the banks were completely taken away from the farmers. I made that statement in a speech that I printed in the Congressional Record on the 21st day of last June. And I called attention to other things that were happening. It was an arraignment of the Federal Farm Loan Board that they had to answer in some way. And this is the way they did it: They had a Member of Congress—I am not going to tell who it was, because I am on the same side with him now in the matter of this confirmation of Mr. Meyer, and I hope to remain that way until it is ended; but I am going to answer that speech, I may say, before the end of this Congress. They answered it by inserting a speech in the Congressional Record three weeks after the adjournment of Congress which was a tissue of falsehoods from beginning to end and was intended as an attack upon me, and intended to defeat me in the coming election, because I had told the truth in the matter. And that was all.

Just a little while before the election last fall that speech found its way into the mail boxes throughout my congressional district. I do not know who paid for it.

Senator CAREY. Was it franked?

Representative RAINEY. It was franked.

Senator CAREY. Who franked it?

Representative RAINEY. That is what I am not going to say now. We are proceeding harmoniously now. But the Member whose frank was used did not write that speech, I will say that.

I am saying this to show how they try to influence Members, and how they try to intimidate them if they do not influence them, and how they attack them for criticizing their methods. That speech was built up around this proposition, and this was given as a complete answer, to my speech, that my story of the events in the House and Senate which occurred when the bill passed shows that I was present when it happened, and that the Record shows I voted for it. Now, of course, that was a complete answer from the standpoint of the ordinary demagogue.

Senator CAREY. Had Mr. Meyer ceased to be a member of the Federal Farm Board when this speech was sent out?

Representative RAINEY. Yes; but it was a part of the methods inaugurated when he was there, and it is still carried on at the present time.

That statement around which this speech is assembled, to wit, that I was present and voted for the act of which I complained, I denounce, now, and I will denounce it on the floor of the House as an unqualified, deliberate falsehood, because I was not a Member of that Congress. You can now see what they will resort to in order to punish a man who has simply introduced some bills, and who has simply told what happened.

### GRAFT IN THE SYSTEM

The farm-loan system is full of graft from beginning to end. Under the act the Presidents can appoint, subject to the approval of the Federal Farm Loan Board, as many employees as they want to appoint, and they can fix their salaries, and they do it.

Senator BROOKHART. Do they fix their salaries in the bank?

Representative RAINEY. Yes; every salary is subject to the approval of the Federal Farm Loan Board. Every appointment is made subject to the approval of the Federal Farm Loan Board. They dictate everything. The opportunities for graft in this system are equaled only by one other system in the United States that I can think of, and that is the Chicago sanitary district.

I do not know how many employes they have. Nobody knows. There are said to be 800 in the Federal loan system, and more in the other system.

Senator BROOKHART. There was an enormous increase since Meyer came in, was there not?

Representative RAINEY. Yes; I think so. No document is published showing the names of these employes and the salaries they get. And you can not find it out from any source. If you write to the Federal Farm Loan Board and ask them what their salaries are, they reply—or they replied to me that that is information they do not give out.

Now, this is another thing they do—and perhaps I just ought to relate my own experience. When I commenced to criticize the Federal system, it was perfectly all right with them for me to discuss the joint-stock system, but not the Federal system. That was their baby; that is the particular baby of the men who are interested in big business. All over at least two States, and I think three States out there where I live, these National Farm Loan Associations commenced to pass resolutions denouncing me. And then they cheerfully mailed the resolutions to me. It often happens that the secretary-treasurer is also the farm adviser or, at any rate, one of the directors of the farm bureau organization in that county; he goes to the directors of the local farm bureau organization, and they adopt a resolution denouncing the Member of Congress, and then they cheerfully send it to him, letting him know that he is getting what is coming to him. I have been advised by these secretaries in Illinois that my conduct marks me as an enemy to agriculture. Farming is the only business I have. I live on one of the best farms in Illinois and have been trying to make it pay, and I have been fighting to save this farm loan system. At the instance of the Federal Farm Loan Board I have been subjected to that sort of abuse and to that sort of criticism, hoping it would shut me up, but it has not, and it is not going to do it. I am going to keep up this fight and expose, every time I get the opportunity, the conduct of this wrecking board organized by Mr. Meyer, and left there, and the harm they are doing in this country, and the destruction they are occasioning to this tremendously important function of this Government.

What I have tried to do, and that means with their disapproval, is to lower this interest rate. If the Federal Government takes over these banks they can lower the interest rate under bills that I have introduced. Farmers can not pay 6½ per cent on their loans, because if they borrow under a 4½ per cent bond issue, the interest rate is 5½ per cent, and to that is added one per cent of amortization charges. They are paying more—three times as much as farmers are paying for their money in France, and we borrowed our system from France. In France farmers who borrow from the Le Credit Agricole Mutuel, pay from 2½ to 2.75 per cent interest, and that is all they pay. The Government has arranged so as to make that possible, and we can arrange to make possible a much lower rate of interest than they now pay.

### LOW RATES TO FARMERS IN FRANCE

The short-term loans such loans as are made by our Intermediate Credit Banking system—are made at a 4½ per cent rate. These banks there are functioning—they have loaned there as much money as we have loaned—through some 800 subsidiaries. They have assets of 13,000,000,000 francs, and that is as much as we have loaned in both of our systems. And they have just as many borrowers. And the prosperity of France is due to that low interest rate. And you can not account for it in any other way.

Senator CAREY. Is it not due, in part, to the fact that they do not pay their debts to this country?

Representative RAINEY. Well, that is our fault. They did not pay their debts to us because we kindly remitted 50 per cent, and gave them 63 years to pay the balance.

Senator GOLDSBOROUGH. How many million francs?

Representative RAINEY. Thirteen million francs; roughly stated, it is $2,500,000.

Senator GOLDSBOROUGH. You do not mean 13,000,000 francs?

Representative RAINEY. Thirteen billion francs—$2,500,000.

Senator FLETCHER. This interest rate could be lowered to the advantage of the farmer if they would cut down the cost of administration?

Representative RAINEY. Absolutely.

Senator FLETCHER. That cost is a spread of 1 per cent, the cost of administration. If they would reduce that cost of administration, that would go to the advantage of the farmer.

Representative RAINEY. If the Government would reduce this cost of administration—give these farmers credit for their 5 per cent of stock—stock they are compelled to take, which is paying nothing now, on their mortgages; if this Government should take over this stock, then the Government would then own the banks. The Government can take over both systems, and then of course the Government should get rid of the entire present personnel of the Federal Farm Loan Board. It can never be a success with the wreckers Mr. Meyer has left in those positions.

### FEDERAL RESERVE A POWERFUL AGENCY

To-day Mr. Meyer emerges from the wreckage he has left in this system and asks that you confer upon him the governorship of the Federal reserve system of the United States, which system is to be *the most powerful agency in the world in the next three or four years* in the economic conditions which confronts us now.

Senator FLETCHER. I never thought that they ought to have increased the membership of that board. I think five would be better than seven. It added to the burdens of the borrowers.

Representative RAINEY. Yes; I think you are right.

Senator FLETCHER. It adds to the expense and comes out of the farmers.

Representative RAINEY. The seven could not be any worse than the five could be. They are doing as bad as they can, whether it is five or seven, or any number.

### MISREPRESENTATIONS BY FARM LOAN BOARD

Now, the statement was made by Mr. Harrison, a member of the board, the other day before one of these committees—I do not know whether it was before this committee or before the House committee—to the effect that the moratorium proposition which is now being discussed has resulted in a drop in the value of these bonds of \$4 a hundred. That is a part of the misleading statements given out by the Federal Farm Loan Board for the purpose of bolstering up this system.

I want to tell you what has happened to those bonds. On the second day of last June—I am just quoting the 4½ per cent bonds—I could quote the rest of them; they show substantially the same—the 4½ per cents were selling at 96¾. That condition continued, selling at 96¾ and 97, until the 1st day of August, 1930. On the 1st day of August they were still selling at 96¾—the 4½ per cent bonds. On the 15th day of August they dropped to 92½. In my studies I have not found out yet what caused that drop.

Senator WAGNER. Was there a drop in other bonds? I mean, in bonds generally in the whole market?

Representative RAINEY. I do not think they did, in August. I think the drop was later. At any rate, the important thing in denying this statement of this Federal farm loan commissioner is that this drop in bonds occurred between the 1st day of August and the 15th day of August. On December 15 they were still selling at 92.

Now, when this drop occurred, Congress was not in session. There could not have been any moratorium propositions advanced anywhere, and there were none. The drop was not on account of that, and that statement is absolutely without foundation, and intended to prejudice the country and the constituencies of members against the moratorium. As late as the 15th day of December these 4½ per cent bonds were still selling at 92.

ATTEMPTED BOND MANIPULATION

But let me show you what happened. On the 2d day of January of this year—as late as the 2d day of January, 1931—4½ per cent bonds were selling at 92. Now, they commenced to go up the next day, to wit, January 3, they went up a little. And the reason for it is here. I am holding now in my hand a full page advertisement sent out by the Federal Farm Loan Board. It contains a statement from every one of the Federal farm land presidents, except the president of district No. 5, which is the Louisiana, Mississippi, and Alabama district, and he said he was sick and could not send them a statement. At any rate, that is the statement made here.

No statements have ever been issued by any corrupt stock-jobbing firm as to the value of the securities they were offering was ever so misleading and so false as the statements made at the dictation of the Federal Farm Loan Board by these 12 presidents.

Senator WAGNER. Of course, whether you are right or wrong about that——

Representative RAINEY (interposing). I might read some of them.

Senator WAGNER (continuing). Mr. Meyer is not a member of that board now.

Representative RAINEY. No; I am simply discussing the policy he inaugurated, and where it leads us.

Now the next day after the appearance of this statement, a full-page statement——

Senator FLETCHER (interposing). What is the date of that?

Representative RAINEY. The 3d day of January, of this year. On the day preceding that 4½'s were selling at 92. On the afternoon of the next day—and that appeared in the morning papers—they went up to 93, as a result of this kind of fraudulent stock-jobbing operations. And they have been going up since then until they got to 95, and they are down now again to 93 and 94, and will be down soon again to 92; and they are going to go lower than that, because this system is wrecked.

Senator FLETCHER. What is your particular objection to that statement?

Representative RAINEY. That it was absolutely misleading as to the condition of agriculture; as to the condition of those banks; as to their prospects, and as to the way they were functioning. It was intended to induce buyers to buy these bonds at higher prices. And they did.

Senator CAREY. Mr. Rainey, do you feel that those bonds were not worth par at the time they were issued?

Representative RAINEY. No; they were worth absolutely par.

Senator CAREY. Then what is misleading in this statement?

Representative RAINEY. They do not represent the bonds as being worth anything. All these discussions are confined to statements as to the prosperity of farmers in the respective land bank districts, and to the success of their banks, and their future success, because the value of the bonds on the markets depends on how those banks are functioning, and whether they are a success.

Senator CAREY. You do not consider those bonds worth the price they were selling at?

Representative RAINEY. I consider them, until Mr. Meyer entered the picture, as worth absolutely par. But they are not worth par now, and never will be again.

Senator CAREY. Do you mean they will not be worth par again on account of the situation you have mentioned?

Representative RAINEY. They are below par because of the conduct of the bank and this board.

Senator CAREY. Then you mean the banks are in a bad condition?

Representative RAINEY. Absolutely. Seven of them have suspended dividends. And that is over half of the system. One is in receivership right now, a camouflaged receivership—the Spokane bank.

Two more of them are in a worse condition, if possible, even than the Spokane bank. Let me tell you what their condition is, to show you what has happened to them.

Senator BROOKHART. You think that this condition has been brought about by the management and not by the defects in agriculture itself?

Representative RAINEY. Yes, brought about by the management, because these banks were intended to be absolutely foolproof when we organized them. They were organized for the purpose of meeting exactly the conditions that confront us now.

Under this Federal Farm Loan act the Secretary of the Treasury can at any time advance money to these banks to the amount of $6,000,000. And that was done once. It has not been done recently.

DESTRUCTIVE METHODS EMPLOYED

Under this act it is contemplated that if an amortization payer is in default he shall be carried for two years before there is a foreclosure. That is provided here in this act. They institute foreclosures at once, after the expiration of ninety days, and the Farm Loan Commissioner has told me himself with reference to disposing of these lands that the thing to do for a bank if they acquire these lands as the result of foreclosure, was to get rid of the farms as quickly as they can and take their losses and they would recover sooner.

Senator BROOKHART. That has the most depressing effect on these bonds of any policy that could be imagined.

Representative RAINEY. Absolutely. As a result these farms are selling for 20 per cent, frequently, of the amount loaned on them. Farms on which loans have been made of $10 an acre have been sold for as low as $1.75 an acre. That could not be very good land, in the State of my friend from Pennsylvania.

Senator BROOKHART. How much did they loan on that land?

Representative RAINEY. $10 an acre, and sold the land for $1.75 an acre.

Senator WAGNER. When was that loan made?

Representative RAINEY. I could not tell you.

Senator WAGNER. Approximately?

Representative RAINEY. The foreclosures have occurred in the last two or three years. I do not know when the loans were made.

Senator WAGNER. Congressman, I have several questions I would like to ask you, and do you wish that I ask them now, or would you rather have me wait?

Representative RAINEY. It is all right, Senator; ask them any time you like.

Senator WAGNER. I have been listening as attentively as I am capable of——

Representative RAINEY. Thank you, Senator.

Senator WAGNER. And I would like you to tell us specifically what acts on the part of Mr. Meyer as you say had the effect of "wrecking," the word you used, the system. What particular act? I do not mean the general statements, but some specific acts that he performed which had that effect.

Representative RAINEY. This liquidating system of banks was organized and put into effect, and this method of disposing of farms quickly, which has had such a depressing effect upon the farm market, was organized under Mr. Meyer.

Senator WAGNER. No; I mean I would like to get down to more specific things, because, after all, when you find fault with an individual and his administration, in order that the individual may answer or that we may be informed, you have to tell us specifically what he did. That is what I would like to know. Just what did he do which caused this result that you complain of?

Representative RAINEY. The resignation of the three old board members was obtained principally for the reason that they would not agree to these liquidating policies which the Treasury Department wanted and which Mr. Meyer has put into effect.

Senator WAGNER. Well, just what was it that Mr. Meyer put into effect?

Representative RAINEY. The proposition to dispose of land as quickly as you can, and at any price.

Senator WAGNER. Do you mean that he issued an ultimatum or a fiat or written instruction? That is what I am trying to find out. And what were those instructions? Personally I may be the only member of this committee that has that simple mind, but I do not grasp these generalities, and I can not find fault with an individual unless you tell me something that he did on the basis of which we would be in a position to find fault with him.

Representative RAINEY. Before his term of office commenced, the farmer borrowers in both systems were carried along and given ample time on the occasion of crop failures to meet their payments. When farms were taken in, the policy of the farm board which preceded him was to carry those farms along until they could realize as nearly as possible the amount of money invested by the banks in these farms in the way of loans. Those two policies were entirely overthrown under the administration of Mr. Meyer.

Senator WAGNER. Well, exactly what was done? Can you not give us an instance of where something was done to an individual who owned a farm or who had a loan from a bank, and what was done to his injury, or what were the facts in connection with it? That is what I would like to know.

Representative RAINEY. You would probably find 5,000 farmers, 10,000 farmers in the United States who have been subjected to these new theories and who have lost their farms.

Senator WAGNER. I do not want to be too insistent, but I would like to have an instance of what was done.

Representative RAINEY. I would have to enumerate those farmers, Senator.

Senator WAGNER. Give us the instances of what was done. How can we say an individual did something which was wrong and destructive in his management unless we know just exactly what he did? That is what you would have to do in a court of law.

Representative RAINEY. The reports submitted by the Federal Farm Loan Board show these foreclosures. They show these hurried sales of lands.

Senator WAGNER. But does that give us any information?

Senator BROOKHART. It shows the policy, Senator. It shows the policy quite clearly.

Representative RAINEY. I am discussing the policy of the board and its results. The results are reflected in the losses thousands of farmers have sustained.

Senator WAGNER. Well, if the rest of the committee is satisfied with that sort of statement——

Representative RAINEY. Well, I am sorry.

Senator WAGNER. I do not want to criticize you, Congressman, but I want to know of specific instances of what was done.

Senator BROOKHART. A banker told me of a case in northeast Iowa where the Bankers Joint Stock Land Bank of Milwaukee sold a farm for $37 an acre which he said was less than the value of the improvements on the land.

Senator WAGNER. I am putting myself for the moment in the position where Mr. Meyer where he is charged with mismanagement. How could he answer that unless you tell him the instances in which he did the mismanagement? What he did? If he would know the case we would get all the facts with reference to the case and the Farm Loan Board might be perfectly justified in doing what it did in connection with it. But short of that, how can he decide the question?

Senator BROOKHART. I gave you one letter from the secretary of an association showing how they froze up on the loans in that association.

Senator WAGNER. You read some complaints of somebody who said he wanted $11,000 and got $10,000. If we examine that case we might find a reason for that. Mr. Meyer had nothing to do with that.

Senator BROOKHART. Well, it came to him, and he said he generally saw those letters, but he did not remember this one.

Senator WAGNER. I want to express my helplessness here in reaching any conclusion from such indefinite statements.

Representative RAINEY. I can only call attention to the policies, and the changed policies, and the admittedly changed policies of the new Federal Farm Loan Board from the old Federal Farm Loan Board which has resulted in this liquidation of land. I am in receipt of letters from bankers and from individuals along this line.

Senator WAGNER. Well, there you might give us a specific instance. If you will give us the name of a bank which complained about some particular case, some particular thing that was done for which Mr. Meyer was responsible, then we might inquire, and we would know the reasons for it. A man may go to a bank and ask for $100,000 on collateral and the banker might say, "No, I will only give you $50,000." Well, he is not very pleased with the decision of that bank, but when we inquire into the facts we might find complete justification for the refusal to lend any more. Now, short of that information, how can you reach any conclusion?

Senator BROOKHART. In these cases I cited to you, Mr. Meyer's own appraisers had appraised the land high enough, and there was no occasion to reduce the loan.

Representative RAINEY. If I had known that you wanted letters from the victims, I could have brought you 200 of them, Senator.

Senator BROOKHART. Let us have those.

Representative RAINEY. I have them in a separate file in my office.

Senator WAGNER. We want to know all the facts.

Representative RAINEY. Letters from the victims of these systems.

Senator BROOKHART. And the facts are stated in these letters?

Representative RAINEY. Yes; the facts are stated in these letters. If you want them I will bring them over here. You can print them all in the Congressional Record. Some of them are most pitiful stories.

I was discussing the condition of the Federal land bank system. The three banks which are in trouble of course, the Spokane, the Columbia and the St. Paul, those are Federal land banks. One of them is under a camouflaged receivership. And what happened in the case of the Spokane bank—and this happened, I think, under Mr.

Meyer's administration, or soon afterwards; at any rate the condition of that bank developed during that period of time—is that a personnel of 40 administrators has taken over that bank. An extensive personnel. And they are administering upon its assets. It is a receivership, a camouflaged receivership.

Under the powers granted this board they have levied an assessment on all the other Federal land banks, on the other 11, raising $3,000,000 in all. That is taken out of their profits, the profits which belong to the stockholders. And that money has been turned over to the Spokane bank to keep it going. Upon that amount of money Spokane certificates were issued to the other 11 banks, and they have got them, and that is all they have done. On those certificates $440,000 of interest had accrued a year ago. I do not know how much is due now. To the condition of that Spokane bank is due the fact, or that is an element which perhaps has made it necessary for some of these other seven banks to suspend their dividends.

Senator CAREY. Mr. Rainey, if the other banks had not come to the rescue of the Spokane bank, would not that bank have had to close?

Representative RAINEY. It would.

Senator CAREY. Was it not better to do what they did than to let that bank close?

Representative RAINEY. It was. I am telling you just what has happened under the present administration of both of these banking systems, and the necessity for reform. And when I call attention to this I incur the enmity and the opposition of the Federal Farm Loan Board and everybody connected with it.

Senator CAREY. Was not the Spokane bank in bad shape before Mr. Meyer became a member of the board?

Representative RAINEY. Yes; it was.

Senator CAREY. And would it not be his duty as head of that board to work the bank out of that condition?

Representative RAINEY. It was. That was the way to do it.

Senator CAREY. You are not criticizing Mr. Meyer on account of the Spokane bank?

Representative RAINEY. No; I am just telling what is happening to the entire system. That was a perfectly proper thing to do.

Mr. MEYER. Mr. Chairman, the advances to the Spokane bank were made by the other banks in 1925, 1926, and 1927, before I became a member of the board—none since then.

Representative RAINEY. That may be true.

Mr. MEYER. It is true, Mr. Congressman.

Representative RAINEY. I am just telling what has happened to the system and suggesting how it might be remedied.

Senator CAREY. I would like you to confine your testimony to Mr. Meyer's activities, because that is what we are really investigating; his connection with the bank.

Representative RAINEY. I am holding him responsible for most of these things, because he is the brains behind most of these things.

Senator CAREY. But as to the Spokane bank, you said that was all right?

Representative RAINEY. No, that situation occurred before his appointment as Federal farm loan commissioner. I am simply calling attention to that because somebody asked me in what condition the Federal land banks were, and I am showing that they are worse off than the joint-stock land banks, and in that connection I discussed the Spokane situation.

Senator WAGNER. I thought I understood Senator Fletcher, the other day, to say that as the result of the establishment of this system, the farmers were really paying less interest for their loans than they were compelled to pay before the establishment of this system.

Senator FLETCHER. Yes; I noticed some of the newspapers said that that had happened under the Farm Loan Board. What I said was that the act itself, the Farm Loan Act and the principles of the act, if it is carried out, meant the saving to the farmers of the country from $400,000,000 to $500,000,000 a year in interest alone.

Senator WAGNER. I understood that there had actually been reductions. Did they not force reductions by other banks?

Senator FLETCHER. Because they got it cheaper; yes.

Senator WAGNER. I thought I understood you to say that.

Representative RAINEY. Yes; their interest rate is lower.

Senator BROOKHART. But it is still not as low as it ought to be.

Representative RAINEY. Their interest rate is lower, but when you add to that the amortization payments they are compelled to make, the interest and the amortization together, the combined rate is just about what they paid in many States before the system went into effect, except they have an opportunity to amortize their mortgages in 33 years.

Senator FLETCHER. In some States that was true, I think, Mr. Rainey, but in a good many States they were paying 8 to 10 per cent and even higher and in many instances could not obtain financial accommodation at all. The farmers were paying about 6 per cent in the Western States to loan companies—possibly with commissions.

Representative RAINEY. In the Western States.

Senator FLETCHER. And in a good many instances in all portions of the country they could not get accommodations at all. Real estate was not acceptable as security by conservative banks. The farmer's chief asset was taboo. The farm loan system was intended to meet the needs of agriculture as well as lower interest rates.

Representative RAINEY. Yes, in the Western States that is true. It has lowered the rates there.

Senator BROOKHART. From a commercial standpoint?

Senator FLETCHER. Yes.

Representative RAINEY. And if the system were functioning properly it would be better than what they had.

Senator FLETCHER. Yes.

Represenative RAINEY. But not as good as farmers require now.

Senator FLETCHER. I see. In other words, before we established this farm loan system, before the Federal farm loan act was passed, we had only a commercial system of banking in this country, and the farmers had to go to the commercial bank for their accommodation.

Represenative RAINEY. Yes, or to an insurance company.

Senator FLETCHER. And this farm loan system was established to benefit agriculture by helping the farmers to get loans on terms they could meet.

Representative RAINEY. Yes, it was supposed to do that.

Senator FLETCHER. To serve their needs.

Representative RAINEY. Yes, we thought it would.

In discussing what has happened to the Federal land bank system, I might call attention to the fact that the Treasury Department holds $100,000,000 worth of these bonds of the Federal system. Those are the bonds out of which they expect to pay the adjusted service certificates when they become due. And those bonds have been subject to this depression. If they are 4½ per cent bonds, they are worth 92 or 93 now. So the Government has lost.

### DISTRACTING EFFECTS

I do not know how many of the bonds of the joint land bank system and the Federal land bank system are owned by the banks generally in this country. They own an immense amount. The method of accounting up here in the controller's office does not show, and I am going to try to get him to ask that question the next time he sends out a request for information as to the assets of banks.

This is what is happening to insurance companies. I have in mind now an insurance company in Illinois which insures automobiles engaged in interstate traffic. They took out their charter in Illinois. In Illinois we have a law that requires them to deposit in approved bonds a certain amount to secure people who might have claims against them. The secretary of state in Illinois advised them to take out Federal and joint stock land bank bonds. And the law which created them, following the Federal law, authorized them to do that. In Illinois those bonds are made legal investment for fiduciary and trust funds. So they deposited as collateral Federal land bank bonds; and principally joint stock land bank bonds. This insurance company was doing a good business. Then these bonds fell on the market. The secretary of state required them to put up additional collateral, they could not do it, and they went into the hands of a receiver.

In Chicago we have—I do not live in Chicago, but I am advised as to this—we have two insurance organizations operating, the park employees insurance organization and the park police insurance organization. They are annuity organizations. These men contribuate a certain amount of their wages each month to that fund, expecting to live on what they get out of it when they are retired on account of age. The acts under which they were organized authorized them to invest their funds in joint stock land bank bonds and Federal land bank bonds, following the leadership of the United States in our act. And they did. On account of the depreciation of these bonds, one of these organizations has now lost $300,000 and the other one more than that. And the park policemen and the park employees generally in Chicago are demoralized on account of the situation in which these banks find themselves at the present time.

### THE AGRARIAN RESOLUTION

I want to call your attention to what is going on in the world, and to the danger that will come if you put at the head of this system a man who represents—and he does it conscientiously and with remarkable efficiency—the class of the very rich in the United States.

The whole world is in the grip to-day of an agrarian revolution. It is the outstanding movement of the postwar period. We have had agrarian revolutions before, but we never had the agrarian revolution we are having now.

Agrarianism, as I define it from my study of economics, is an organized effort on the part of the farm population, or a socially conscious group of farmers, to secure either a redistribution of land or the establishment by law of conditions more favorable to the use and occupation of land and to those who live on the land.

In Russia they are standing, and successfully standing for a redistribution of land. Here, and especially since the war, the agrarian revolution consists of an attempt on the part of a class conscious group of farmers to establish by law more favorable conditions for those who live on the land. And the agrarian revolution which grips the world now is felt principally in the United States and Russia.

Up to the present time here it finds its expression at the polls. You heard of it; a great many Members of Congress and a great many Senators heard of it last fall. And more of them are going to experience the effect of this agrarian revolution in the elections of next year.

This tide of agrarianism in the world has resulted in the following startling situations: The paying off of mortgages on farms in France and Belgium. And that has been made possible by a farm loan system which functions at low rates of interest for farmers. The predominance of the agricultural plains section of America. The rise of the popular party in Italy. The recent concessions in Ireland. The situation which presents itself now in India.

In a sort of awful silence the farmers of the world are fighting a pitched battle with capitalism everywhere. And everywhere the farmers are slowly winning. That is the agrarian revolution which marks this post-war epoch in the history of the world, and it is the alarming thing for all of you. As long as it manifests itself in the United States in an attempt to get legislation making living conditions on the land better, there is not the danger Russia experienced just during and after the World War.

Unless we meet that situation here in the United States by the selection of men to these important posts who are not conspicuously and avowedly understood to be wedded to the doctrine of capitalism to the exclusion of the rights of the masses of the people, we may have something more in this country come out of this agrarian revolution we are experiencing now than a mere reflection of it at the polls.

In Russia to-day, as the result of their agrarian revolution there, these astonishing conditions prevail. The best posted man on Russia in the United States is Col. Hugh L. Cooper, the great engineer, who built the Keokuk Dam, who built the dam at Assuan, and the Roosevelt Dam. For five years he has lived in Russia. He is just back. He testified before my committee, the Ways and Means Committee of the House, the other day, and I asked him these questions, and this was his testimony. And I believe every word he said. It is all in the hearings; everybody can see it. I am going to quote as near as I can what he said. He said in reply to my questions:

The 5-year period in Russia ends in 1933. It is a success so far. It will be a success in 1933. There is no problem of unemployment in Russia. Every man is employed. There is no forced labor in Russia. Every man selects his own job.

He said:

I am at the head of a development in the Dnieper River and—

to use his exact words—

I am building there the biggest dam ever built in any man's river in the history of the world. I have 16,000 employees under me. And they are an efficient group of workers. Just as efficient as American workmen. I employ them myself. They can quit when they want to. I give them a 5-day week and an 8-hour day, and I pay common laborers $1.85 a day, and I furnish them with quarters in which to live, and I furnish them with light and heat. The salaried men, whom we ordinarily call white collar employees, I pay $130 a month, and furnish them with quarters, lighted and heated. And that is $20 a month more than Stalin gets. And he owns no property except the clothes he wears.

No man is so thoroughly imbued with an opposition to communism and abhorrence for what it stands for as Hugh L. Cooper, and he so expressed himself on the stand before the Ways and Means Committee two or three days ago.

He said the communal farms were operating successfully. He had been over them. The tractor factories are operating successfully. He knew about them. In one communal farm there are 300,000 acres. And they pay farm laborers on that communal farm, that is Russia pays them, $50 a month. A while ago I said that he was paying this money to his own laborers. It is paid by the Government of Russia. Of course he does not pay it. When I mentioned that he did it, a while ago, I meant, of course, Stalin and the communistic government, and not Mr. Cooper. He is simply employed on a salary, a very large salary, in charge of that work in the Dnieper River. The Government of Russia pays farm laborers $50 a month and furnishes them with quarters heated and lighted.

He said that in just a little while Russia would be producing wheat for the world. And that the time was approaching, and it would be here in just a few years, when we could not sell on the markets of the world another bushel of wheat from an American farm. In a few years they will be producing cotton for the world.

Now when that happens, and as the end of their 5-year program approaches, we are confronted with this situation here in this country. We have 230,000,000 bushels of wheat stored up, including what the Federal Farm Board has. And the men are starving who raised the wheat. We have got $4,500,000,000 worth of gold in our vaults. And factories have closed. And men are out of employment, 5,000,000 of them throughout the United States. Our labor-saving machinery is more efficient than it ever was. And men are in more distress than they ever were before. We are better fitted now with money and with food grains and food animals to keep our population comfortable than we ever were before. And yet we are face to face with the conditions of food riots in agricultural sections where they produce food, on account of hunger in their families. We have 511 men in the United States whose annual income is a $1,000,000 a year and we have many thousand millionaires. What defense can capitalism make to these conditions when attention is called to these facts two years from now in this country and when they call attention to what is happening in Russia, if Col. Hugh L. Cooper is right about it, and I have the utmost confidence in his judgment and in what he says?

Is this a time in the history of the world when we, the richest nation in the world, and the most powerful, can afford to place at the head of this great arm of this Government a man who will be in a position to control the value of stocks and bonds and investments in opposition to other values in this country which are even more important than these? A man who is completely committed to the doctrines of extreme capitalism? And it is capitalism that is going to meet the attack two years from now in this country if conditions continue as they are.

The time has come when we have got to have more Republican Members of Congress who are not so thoroughly devoted to the doctrine of laissez faire—"let things drift. We are prosperous, we are happy, we will come out all right." We have got to have fewer Democrats in the Congress of the United States and in the Senate who still make their defense for every one of their votes upon some utterance of Thomas Jefferson. We can not live in the period of 100 years ago. We have got to meet the new conditions which confront us now with new methods, with new legislation to create new remedies, and you are not taking a step in that direction when you put in control of this agency which is going to have so much to do with the economic events of the future of this country and of the world, a man with the record Mr. Meyer has, a man who stands for the propositions that he stands for and for the old method of carrying them into effect. It is a danger which I think I can see, and I hope this committee can see it, and I hope the Senate can see it and save us from the peril his appointment would mean to the economic structure of this country in the new conditions which confront us now.

Gentlemen, I apologize for the time I have taken, and I thank you for your very courteous and patient attention.

Senator CAREY. Mr. Bestor, would you mind answering a question or two?

Mr. BESTOR. Certainly not.

## TESTIMONY OF PAUL BESTOR, FARM LOAN COMMISSIONER

(The witness was duly sworn by Senator Carey.)

Senator CAREY. Mr. Bestor, when did you come to the Farm Loan Board?

Mr. BESTOR. May 16, 1929.

Senator CAREY. Was that when Mr. Meyer went there? You went before that, did you not?

Mr. BESTOR. No; I went there after Mr. Meyer had left the board. Mr. Morrill is not a member, but he is general counsel of the board, and perhaps he can tell you what you want to know.

Senator CAREY. I want to ask you about one matter that you might be acquainted with. You have heard Mr. Rainey testify as to a speech that was sent out during the campaign?

Mr. BESTOR. Yes, sir; I heard that.

Senator CAREY. Have you any knowledge as an officer of your board of the speech being sent out?

Mr. BESTOR. I have not. None whatever.

Senator CAREY. Do you know of anything being done by the Federal Farm Board in connection with the election.

Mr. BESTOR. No, sir.

Senator CAREY. That is all. The other things that I intended to ask you about happened before you became farm loan commissioner.

## TESTIMONY OF EUGENE MEYER. GOVERNOR OF THE FEDERAL RESERVE BOARD—Resumed

Senator CAREY. Mr. Meyer, have you any further statements you want to make?

Mr. MEYER. I think not, Mr. Chairman.

Senator CAREY. I think we have been over most of the ground before.

Mr. MEYER. I think so. Of course a great deal of the discussion centered on matters occurring before and after I was on the Farm Loan Board.

I might say as far as Huston, who has been mentioned, was concerned, assuming the date Mr. Rainey says he was arrested, May 19, 1927, to be correct—I will assume it is so; I do not know—I will say that I had no discussion directly or indirectly with the Department of Justice concerning his arrest or any of the criminal proceedings connected with him. The only thing, so far as I recall, that I had to do with anything that was connected with the criminal proceedings against him was this: As I remember it, his friends or his attorney or somebody representing him or appearing to do so said that Mr. Huston would like to defer his resignation, which had been called for by his board, and which he had decided to offer anyway, until after his trial—and I do not know what trial it was; some criminal trial—had taken place, so that his resignation as head of the bank and his elimination from the bank would not prejudice him at the trial. I consulted the Farm Loan Board about it and recommended that that be done, and the board agreed that there was no necessity to press the matter of his resignation if it would prejudice him in the criminal trial.

Senator CAREY. To what do you attribute the low price of Federal farm loan bonds at this time?

Mr. MEYER. Farm loan bonds?

Senator CAREY. Yes. The bond market, the general bond market?

Mr. MEYER. All bonds had a very bad time beginning in the late spring and summer of 1928. In the case of farm loan bonds, I feel that one factor is that the system has been under constant discussion and attack. Land values have been declining, which is another factor. But really I think one of the things that is unfortunate is that most of the outstanding bonds were issued for 30 years, with an option to call them at the end of the tenth year, as is necessary under the law. I think that, to a certain extent, the form of that issue—for a 30-year period with a call period of 10 years—has worked against the bonds because the option means that if the bond is an advantageous investment it will be called any time during a period of 20 years, as many of them have been called, and if it is a disadvantageous investment it will not be called. And while a great many bonds were sold that way, I feel that it was a mistake, and is now and has been in recent years hurtful to the market for the bonds.

The receivership of the Kansas City Joint Stock Land Bank, Mr. Chairman—it has already been stated, and I merely repeat it—took place prior to my advent on the Farm Loan Board. I was not consulted about it, and had nothing to do with it. I knew nothing about it, having returned from Europe after or about the time it took place. I was away four weeks before it took place and did not hear of it until after I returned.

The bond sales have been made from the beginning by the same group that Mr. Norris selected, in the same way. I did not initiate it. It has been going along before I was there, while I was there, and after I left there, in the same manner.

As to Mr. Hughes's opinion, that was an opinion that was rendered to the bankers' group, I understand. I think it was a question of the constitutionality of the act.

Senator CAREY. Did you ever see a copy of that opinion?

Mr. MEYER. I have never seen a copy of the full opinion, but I think that in the circulars of the banks there was frequent reference to the opinion in the earlier days. They read, as I remember it, something like this, that while the United States Government did not guarantee these bonds, they were, in accordance with the opinion of Mr. Charles E. Hughes, as sustained by the Supreme Court of the United States in the suit to test the constitutionality, instrumentalities of the United States Government, and therefore legal and tax exempt in accordance with the provision of the act.

Dividend actions of the banks, I do not need to tell the committee, I think, are taken by the boards of directors of the banks.

The amortization payments, which, of course, are added to the interest on the loans, are the amounts applied on the principal, so that, at the end of 33 years, or whatever the life of the loans may be, the debt of the farmer is paid off. It was considered a wonderful plan at the time the act was passed.

That, Mr. Chairman, I think is all I have to say except that in the case of the Kansas City Joint Stock Land Bank, the president of the bank was indicted on something over 80 counts, if I remember correctly, and, I think, convicted on all of the counts.

Senator CAREY. That all happened previous to your going to the board?

Mr. MEYER. The indictment, I think, did, but the trial happened subsequently, I think. As I said before, I was so busy trying to do what I could to save the situation, to the best of my ability, that I did not devote time and attention to the criminal proceedings. I do not think in the entire period of two years, or at any time before or after, I ever consulted with the Department of Justice about these proceedings. Those are legal matters; the legal department of the board considered those. And I am not a lawyer, and I am not very much interested in legal prosecutions, especially criminal ones.

The receiverships, three in number, I have already referred to in my testimony. The Kansas City Joint Stock Land Bank, by far the largest, took place before I was there, and, as I said, I knew nothing about it until after it happened.

The Milwaukee bank had been in the hands of a creditors' committee in a way, or the directors had had an advisory committee appointed. Just before the announcement of the receivership, the general manager of the bank addressed a letter to the stockholders which stated as follows:

In our letter to you of April 16, we stated that the advisory committee was considering a plan for voluntary liquidation of the bank and that when completed the plan would be submitted for the approval of the Farm Loan Board and the stockholders.

The advisory committee has made every effort to establish a workable plan for liquidation but has been unable to interest sufficient capital to warrant adoption of such a plan. Accordingly, the committee is unable to submit any plan of reorganization to the Farm Loan Board and the stockholders.

Under the circumstances, the committee is of the opinion that an orderly liquidation of the bank under the supervision of the Farm Loan Board is the most desirable procedure and has so advised the board of directors of the bank.

The advisory committee had been appointed quite a while before I entered into the position of commissioner of the Farm Loan Board.

I have already explained the circumstances of the receivership of the Ohio Joint Stock Land Bank of Cincinnati, which had been practically in liquidation for some period of more than two years before I accepted that position.

Senator FLETCHER. Which bank was the one you referred to just before the Ohio bank?

Mr. MEYER. That was the Bankers Joint Stock Land Bank of Milwaukee.

So that one receivership, by far the largest, and two others that took place in a formal way after I accepted the position, were either actually or practically in process before I entered the position.

Senator BROOKHART. There are a few questions I want to ask Mr. Meyer, Mr. Chairman.

Senator CAREY. All right.

Senator BROOKHART. You say you did not consult with the Department of Justice, but you did consult with Mr. Dewey?

Mr. MEYER. No, I did not.

Senator BROOKHART. And Mr. Williams?

Mr. MEYER. I did not.

Senator BROOKHART. And they did consult with the department?

Mr. MEYER. You mean about the criminal proceeding?

Senator BROOKHART. About the criminal proceeding.

Mr. MEYER. Not at all. Nobody consulted me, and I consulted nobody.

Senator BROOKHART. You paid no attention to that whatever?

Mr. MEYER. No, sir; nobody consulted me.

Senator BROOKHART. Do you not think a good, efficient manager ought to have paid some attention to that?

Mr. MEYER. To these criminal proceedings?

Senator BROOKHART. Yes.

Mr. MEYER. Well, Senator, I was as busy as could be with a tremendous amount of work. I am not a lawyer, and I did not know anything about these things which had taken place before I was there. They were matters in the hands of the Department of Justice, and there was nothing I could do about them one way or another, so I can not see exactly why I should have undertaken to spend a lot of time on them. We were working day and night on other things that we thought were constructive. In any event, whatever my opinion may have been about the criminal proceedings I could not undertake to influence the Department of Justice one way or another on anything they had undertaken.

Senator BROOKHART. Did not the prosecution of Huston, for instance, on a charge that was absolutely without merit, do more damage than all the constructive things that you did with the institution?

Mr. MEYER. I did not have anything to do with the bringing of those charges. I did not know whether they had merit or not; that was a matter for the Department of Justice. I could not undertake to run that department, Senator. I think interference with the operations of the Department of Justice by other departments would not be well received.

Senator BROOKHART. There are one or two other matters that I forgot to inquire about the other day. What have been your relations with the Allied Chemical Co.?

Mr. MEYER. I am a stockholder and an investor. I have nothing to do with the management. I have never been a director. And I am not now.

Senator BROOKHART. And what is your principal private business?

Mr. MEYER. I haven't any private business.

Senator BROOKHART. Have you any other investments aside from Allied Chemical?

Mr. MEYER. Yes.

Senator BROOKHART. What are their nature?

Mr. MEYER. Industrial and mining investments.

Senator BROOKHART. And up to the time you went in the public service, your prinicipal business was investments and handling of stocks as a broker?

Mr. MEYER. I was in what I would call the investment banking business, Senator.

Senator BROOKHART. And dealing on the Stock Exchange?

Mr. MEYER. Sometimes. Investment market. Just as other investment bankers do.

Senator BROOKHART. Was that where you bought and sold these investments, on the Stock Exchange?

Mr. MEYER. Not always, not always.

Senator BROOKHART. Was that where you did it principally?

Mr. MEYER. No; I would not say so.

Senator BROOKHART. How was the rest of it conducted?

Mr. MEYER. As investment bankers conduct business—by distributing securities to people who wanted them; firms and individuals, mostly other firms which applied for them.

Senator BROOKHART. I believe that is all.

Senator CAREY. I would like to consult with the committee for a few minutes.

(Thereupon the committee withdrew from the hearing room for a short time, and on returning an adjournment was taken at 5.15 o'clock p. m. until 2.30 p. m. the next day, Friday, February 6, 1931.)

# NOMINATION OF EUGENE MEYER TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

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**FRIDAY, FEBRUARY 6, 1931**

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE
ON BANKING AND CURRENCY,
*Washington, D. C.*

The subcommittee met, pursuant to adjournment of Thursday, February 5, 1931, at 2.30 o'clock p. m., in the committee room of the Senate Committee on Military Affairs, Capitol Building, Senator Robert D. Carey presiding.

Present: Senators Carey (chairman of the subcommittee), Goldsborough, Brookhart, Wagner, and Fletcher.

Senator CAREY. We have received a letter from Mr. Charles B. Brewer, an attorney here in Washington, in which he has made certain charges against Mr. Meyer; also suggesting that he be called before the committee.

After conferring with the members of the committee it has been decided not to call Mr. Brewer, as the matters to which he refers have all been covered in previous hearings or in this hearing, and it would simply add to the length of this hearing without furnishing any additional information.

## STATEMENT OF HON. LOUIS T. McFADDEN, A REPRESENTATIVE IN CONGRESS FROM THE FIFTEENTH DISTRICT OF PENNSYLVANIA—Resumed

Representative McFADDEN. Mr. Chairman and gentlemen of the committee, supplementing what I said when I appeared before the committee last week, in my letter to Senator Norbeck under date of January 5, I said of Mr. Cook that he was a lawyer and a brother-in-law of Eugene Meyer, jr., and George Blumenthal. These he admitted, and he admitted that he was attorney for Lazard Freres and that he was attorney for the New York Times. All of these he confirmed by his testimony before your committee, and admitted that he was a director of and attorney for the Fidelity Trust Co. on a retainer up to December 30, 1930, and is retained without salary until July 1, 1931.

He told you that he organized the Fidelity Trust Co., and that the purchase of the control of the stock of that company by the Marine Midland Corporation was consummated in his office, and that the Fidelity Trust Co. is now a subsidiary of the Marine Midland Corporation, and that he was a stockholder in the Marine Midland Corporation.

He denied only that part pertaining to activity in the appointment of Mr. Platt as vice president of the Marine Midland Corporation.

I am making this clear to you now because of the statement made by Mr. Cook when he appeared before your committee, as follows:

> All the statements made in this letter by Mr. McFadden are founded on whole cloth and are untrue so far as any reference to me is concerned, directly or indirectly in any way, shape, manner, or form.

I feel that I should correct that reference in his testimony which tended to indicate that he was in the employ of J. P. Morgan & Co. in the colloquy that took place between Senator Brookhart and Mr. Cook. If this supposition came from my letter, it is entirely without foundation. I never stated that Mr. Cook was in the employ or connected with J. P. Morgan & Co.

Senator BROOKHART. I think that was my mistake in asking the question.

Representative MCFADDEN. What I did say was that his brother-in-law, Mr. George Blumenthal, was connected with Lazard-Freres and was the liaison between J. P. Morgan & Co. and the French Government. Mr. Cook made no reference whatsoever in his testimony in regard to this and it is for the purpose of correcting a wrong impression that might be gained from this colloquy that I make this statement.

I feel, also, that I should say that my reference to Mr. Cook's employment as counsel for the War Finance Corporation did not embody any question of ethics whatsoever. It was simply a recital of the fact that he had had experience with the War Finance Corporation here in Washington when it was being managed by his brother-in-law, Mr. Meyer. It was more for the purpose of identifying Mr. Cook that I made this reference than for anything else.

I am glad, however, that Mr. Cook disclosed to the committee his and Mr. Meyer's connections with Kuehn, Loeb & Co. and other affiliated brokerage houses in New York in this sale of $200,000,000 worth of equipment trust notes which the Government was desirous of financing for the Director General of Railroads. This relationship disclosed by Mr. Cook is important in connection with the future operations of the Federal reserve system under the management of Mr. Meyer, and I will have more to say concerning it later on.

Referring to the statement before this committee of Mr. George F. Rand, Arthur A. Cook, and Roy A. Young as regards their participation in any of the negotiations or incidents leading up to Mr. Edmund Platt's resignation as a member of the Federal Reserve Board and vice governor, and his employment as vice president of the Marine Midland Corporation at a salary practically double that which he was receiving as a member of the Federal Reserve Board whose term of office would not expire for eight years, it is a well-known fact that since the death last March of W. P. G. Harding, who was governor of the Federal Reserve Bank of Boston, this position was being held open for Roy A. Young, if and when he resigned as Governor of the Federal Reserve Board, which resignation was being withheld until such time as his successor could be named and could be qualified.

It was also equally as well known that if Mr. Platt's resignation could be secured, Mr. Eugene Meyer would be appointed a member of the Federal Reserve Board and designated its governor.

The obstacle to this was Mr. Platt.

The testimony given by these men to your committee conveys the information that on September 1 Mr. Platt was on vacation in Connecticut; that Governor Young had not seen him since July. Mr. Platt says he came to Washington September 2 to attend a meeting of the Federal Reserve Board for the purpose of fixing Governor Young's salary as governor of the Federal Reserve Bank of Boston. Governor Young disclaims having seen Mr. Platt at this time and knew nothing of his resignation.

I would point out that Governor Young's resignation was followed immediately by the resignation of Mr. Platt and that on September 3 an item appearing in the New York Times in which it was definitely stated that Eugene Meyer, jr., " would be appointed governor of the Federal Reserve Board " and that " the legal difficulty offered by the fact that another New Yorker was a member of the board could be overcome," proves conclusively that negotiations were pending to eliminate Mr. Platt and evidently had been successful.

I would call your attention to an article appearing the following day, September 4, in the Washington Post, which says:

> Government authorities indicate that they believe a solution can be found, and acting on this belief President Hoover is said to have eliminated all others than Mr. Meyer for consideration.

It is apparent that Mr. Platt came to Washington for other reasons than to attend the meeting of the Federal Reserve Board for the purpose of fixing Mr. Young's salary. It is perfectly clear from the testimony before your committee that Mr. Platt's definite assurance of resignation and acceptance of Mr. Rand's offer was secured while he was in Washington between September 2 and September 5, the definite date of the announcement, and the Government authorities who had this matter in charge were at this time properly informed and did report that the impediment had been removed. The final result of this is that Mr. Platt resigned as vice governor and a member of the Federal Reserve Board and accepted a position at practically double the salary (besides employment of his secretary) as vice president of the Marine Midland Corporation—a newly created position to fit his particular employment. As to who or how negotiated, this still remains undisclosed.

It is significant, however, that the man who could furnish the best information on this particular matter, Mr. Edmund Platt, has not been called before this committee.

It is significant also that while Mr. Meyer has been before your committee two days explaining his own activities in the administration of the War Finance Corporation as regards loans to cooperatives and cattle loan companies and his administration of the Federal farm loan system, he has made no statement or explanation as to his own activities in securing this appointment. Why is he silent? He is the one man who could tell you about the incidents leading up to this appointment.

Senator CAREY. As to why Mr. Platt was not called: The reason was that the afternoon that I went to the House to see you regarding this hearing, which was before this committee met, I asked you the names of witnesses that you thought should be called and you did not include Mr. Platt among those that you mentioned. I wired all the others. That is how it happened that Mr. Platt was not called.

Representative McFADDEN. It was mentioned in my letter to Senator Norbeck.

Senator CAREY. I had not seen your letter to Senator Norbeck, but I went to see you in the cloak room of the House and made a list of the names that you suggested. For some reason or other you failed to include Mr. Platt.

Representative McFADDEN. I want now to call your attention to the fact that the Marine Midland Corporation is a public utility bank. It is interested, and its board of directors and stockholders are to a large extent engaged, in the development of water power, chemicals, and public utilities, and I refer for my information in this respect to a statement made by George F. Rand, the president of the Marine Midland Corporation, before the Committee on Banking and Currency of the House in connection with House Resolution 141, on April 23, 24, and 25, 1930. The Niagara power interests are closely identified and affiliated with this institution.

The New York Times of February 3 gives some very interesting information in this respect. This article is headed "Big Depreciation for Niagara Share—Asset Value Off $29,001,834 in 1930 to $9.75 a Share, Against $13.07 in 1929."

Then it goes on and says that the balance sheet shows investments in stocks and bonds costing $141,684,245, with a market value on December 31 of $78,283,208. It says that the net income for the year, after all charges, was $3,075,388, "which includes income from assets acquired from Marine Union Investors"—Marine Union Investors is a subsidiary of the Marine Midland Corporation—"and Union Rochester Share Corporation."

The Union Rochester Share Corporation I do not know about.

It refers also to the income from Schoellkopf, Hutton & Pomeroy, closely affiliated with the Marine Midland Corporation. The article says further:

> The portfolio of investments reveals holdings of 347,774 shares of the Marine Midland Corporation, making Niagara Share the largest stockholder in the bank-holding company. The trust also owns 3,602,133 shares and 1,000,204 class A warrants of the Niagara Hudson Corporation.

The balance sheet shows the other assets.

The common-stock holdings as printed in this article are what I desire particularly to call your attention to. Among them is—

Consolidated Gas of New York, 29,100 shares.
Electric Bond & Share, 7,330 shares.
Stone & Webster, 7,120 shares.
Du Pont de Nemours, 1,500 shares.
General Electric, 4,400 shares.
St. Regis Paper, 35,000 shares.
Standard Brands, 22,000 shares.
National Investors Equity, 17,200 shares.

Marine Midland, 347,774 shares.
Niagara Securities, 48,000 shares.
Bank of Manhattan Trust, 4,300 shares.
Public National Bank and Trust, 3,800 shares——

Senator BROOKHART. I did not quite get the connection there with the Marine Midland Corporation. What is this?

Representative McFADDEN. This is the annual report of the Niagara Share Corporation. It shows that the Niagara Share Corporation is a controlling interest in the Marine Midland Corporation.

Senator BROOKHART. It has a controlling interest in the Marine Midland, or the Marine Midland has a controlling interest in the Niagara Share? Which is that? That is where I am confused.

Representative McFADDEN (reading):

> The *portfolio of investments* reveals holdings of 347,774 shares of the Marine Midland Corporation——

Senator BROOKHART. Oh, I see.

Representative McFADDEN (continuing reading):

> Making Niagara Share the largest stockholder in the bank-holding company.

Then it goes on with the other interests.

I want to point out clearly to you Senators that the Marine Midland Corporation is a public utility bank. It is interested, and its board of directors and stockholders are to a large extent engaged, in the development of water power, chemicals and public utilities; and I refer for my information in this respect to a statement which Mr. Rand made, in addition to what I have already read you here from the clipping from the New York Times. His statement, which is fully set forth in the hearings before our committee on April 23, 24 and 25, 1930, shows that the Niagara Power interests are closely identified and affiliated with this institution.

These same interests are closely allied and affiliated with the United Corporation which is the superpower creation of J. P. Morgan & Co. which organization ties in with the Mellon group, the United Gas Improvement group, the Consolidated Gas-Brooklyn Edison and Brady group, Niagara & Hudson Power Co., the Carlisle group, and the Du Pont interests. It was these interests that gave Mr. Platt his new job. It is these interests which have prevailed upon Mr. Platt to retire from the Federal Reserve Board, which created a vacancy in the only district from which Mr. Meyer could be appointed. They want Mr. Meyer to be governor of the Federal Reserve Board. He is their man—he is one of them——

Senator WAGNER. Congressman, on what do you base that? Is there any statement made by any responsible source that any such arrangement was made between all these groups and the President of the United States? You must base this statement upon some evidence, I take it, or you would not make it.

Representative McFADDEN. I want to follow that up, Senator.

Senator WAGNER. Is it of the same type?

Representative McFADDEN. I want to call your attention to the fact, as Mr. Meyer told you yesterday, that he is still interested in the Allied Chemical Co.——

Senator WAGNER. Is that your basis?

Representative McFADDEN. That is part of my basis; yes.

It is interesting also to bear in mind that I have already called your attention to the fact that you should ascertain Mr. Meyer's connection with big business and big finance and with Allied Chemical Co. You should know how he became interested initially in the Allied Chemical Co. Yesterday he disclosed the fact that he was a stockholder in that company.

We have a provision in the law that forbids the Secretary of the Treasury being identified in any manner whatsoever with financial institutions or business undertakings that in anywise contact the Government. You are all familiar with that, and the oath.

There is also a provision forbidding a member of the Federal Reserve Board from being connected with a national bank or member banks. Here is an instance where power and chemical interests control a bank.

It is important that you know what private bank affiliations, if any, Mr. Meyer has. This is particularly pertinent because during his career in the Government service he has maintained these close relationships with important private financial interests as well as with the big important groups of banks. I want to call your attention now to the fact that the Allied Chemical Co. is a consolidation of several important chemical companies. The principal companies that went into this Chemical combination were the Niagara Falls Co.'s, owned and controlled by the Schoellkopfs, who control the water power at Niagara Falls and are directors of the Marine Midland group of banks, and the Dupont chemical and water power interests, who are tied in with the United Co.

I also want to call your attention to the close relationship of the General Electric Co., the Electric Bond & Share Co., the Niagara & Hudson Power Co., American Super Power, and of their affiliated groups, both foreign and domestic, as a part and parcel of this water power and chemical control all under this same financial control. And then also the Aluminum Co. of America is affiliated with the Marine Midland group, which is controlled by the Mellon group, of which the present Secretary of the Treasury, Andrew W. Mellon, is the head and dominating influence, and Mr. Mellon is chairman ex officio of the Federal Reserve Board.

Senator CAREY. The Marine Midland is a member of the Federal reserve system, is it not?

Representative MCFADDEN. Yes.

Now, to make more clear what I am saying to you, I want to point out the names and connections of the directors of the Marine Midland Corporation as proof of what I am saying to you, and I am placing in the record at this point a list of the board of directors of the Marine Midland Corporation which was furnished me by Mr. Rand when he appeared before our committee.

(The list of board of directors of the Marine Midland Corporation is here printed in full as follows:)

George G. Allen, president Duke Power Co.
John L. Clawson, chairman of the board, Clawson & Wilson Co.
Walter P. Cooke, chairman of the board, the Marine Trust Co., of Buffalo.
Arthur V. Davis, chairman of the board, Aluminum Co., of America.
William C. Feathers, president the Manufacturers National Bank, of Troy.
Seymour H. Knox, president Marine Union Investors (Inc.).
Edward H. Letchworth, director and general counsel, the Marine Trust Co., of Buffalo.

Raymond V. V. Miller, White, Weld & Co.
George O. Muhlfeld, vice president Stone & Webster (Inc.).
Bayard F. Pope, president Stone & Webster and Blodgett (Inc.).
George F. Rand, president the Marine Trust Co. of Buffalo.
Faris R. Russell, White, Weld & Co.
J. F. Schoellkopf, jr., vice president Schoellkopf, Hutton & Pomeroy (Inc.).
Paul A. Schoellkopf, president Niagara Hudson Power Corporation.
Eustace Seligman, Sullivan & Cromwell.
Ernest Stauffen, jr., chairman of the board.
Charles Winslow Smith, treasurer Sherwood Shoe Co.
Harral S. Tenney, vice president Marine Midland Corporation.
Thomas A. Wilson, president Peoples Trust Co., Binghamton, N. Y.
Frederick W. Zoller, president Union Trust Co. of Rochester.

These are important circumstances, to say the least, when it was so desirable for Mr. Platt to resign, and instead of having to go out and hunt a position that one comes to him out of a clear sky from a group which is so largely controlled by friends of Mr. Meyer both in and out of the administration.

I point to the interests in the Marine Midland Group of the Mellons through representation on the board of Arthur V. Davis, chairman of the board of the Aluminum Co. of America, the Bank of Manhattan interests now represented on the board by George Murnane who is also a partner in Lee, Higginson & Co. and a director of the American & Continental Corporation, owned and controlled by the Warburghs and the Bank of Manhattan Co., and the stockholding interest of the Public National Bank of New York in the Marine Midland group of banks on which board of directors is Mr. Meyer's brother, Walter E. Meyer, and Alfred A. Cook, a stockholder and attorney for an affiliate of the Marine Midland Corporation. These family relationships, I am emphasizing and would call your attention to the further fact that Lazard Freres, the international banking house of New York and Paris, seems to have been a Meyer family banking house, and it is important now because of the fact that whether Mr. Meyer personally is still interested in this banking house, the family relationship is, and I am stressing the importance of this connection because of the important position that this international house occupies in French finance in Paris. It is a well-known fact in financial circles in the city of New York that this is one of the most important international financial houses in New York whose international transactions are very carefully guarded at all times. This house frequently figures in imports and exports of gold, and one of the important functions of the Federal reserve system has to do with gold movements in the maintenance of its own operations.

In looking over the notes of the hearing which was held last Tuesday, I desire to refer to the testimony, on page 413 of the stenographer's notes, when Mr. Meyer was questioned by Senator Fletcher.

Prior to the question that Senator Fletcher had asked Mr. Meyer, to wit:

> *Do you think that the Federal Reserve Board can have much to do with* foreign financing and international financing?

To which Mr. Meyer answered:

> The Federal Reserve Board has not anything to do with it under the law, so far as I know, Senator.

Senator Fletcher asked Mr. Meyer:

Have you any connection with international banking?

Mr. Meyer answered:

Me? Not personally.

This last question and answer do not appear in the stenographic transcript. I have consulted with Senator Fletcher with reference to this situation, and Senator Fletcher remembers asking the question, and the answer. It is an odd omission, and this omission——

Senator FLETCHER. I have not seen the transcript.

Senator CAREY. I have not seen it.

Representative McFADDEN. I was furnished a copy of it from Senator Norbeck's office.

Senator FLETCHER. I do not know how the question was omitted unless the stenographer just left it out.

Representative McFADDEN. It may have been left out in the correction of the record. I do not think a thing like that ought to be left out in correcting the record.

Senator CAREY. You can put it in the record now.

Representative McFADDEN. I have seen the stenographic report——

Senator BROOKHART. I understand that Mr. Meyer looked over it for correction.

Mr. MEYER. You are saying that the uncorrected copy is what you saw, and therefore it is not a question of its being corrected. It is the uncorrected copy as shown from the notes of the stenographer.

Representative McFADDEN. Of course, it may have been an oversight on the part of the stenographer, but the incident should be clarified.

Senator GOLDSBOROUGH. Somebody left it out?

Representative McFADDEN. Yes.

Senator GOLDSBOROUGH. Who is the somebody?

Representative McFADDEN. There is nobody but the stenographer that makes the record, Senator.

Senator CAREY. The question was, "Have you any connection with international banking?"

Representative McFADDEN. Yes; and Mr. Meyer's answer was:

Me? Not personally.

Mr. MEYER. The conversation had been about various other people. I have no interest in international banking, and I have never had except when I was an employee—a clerk—in the firm that my father resigned and retired from in 1901.

Senator CAREY. That firm was what?

Mr. MEYER. Lazard Freres. My father retired from business 30 years ago.

Senator CAREY. Did you ever have any interest in that firm?

Mr. MEYER. I never had any.

Senator CAREY. Since your father died?

Mr. MEYER. I never had any. I was a salaried employee. The maximum salary I received, up to the time I left in 1901, was $2,500 a year. I did not think I was getting enough, and that was one of the reasons why I left. You don't get enough from your own relatives—that is what I thought. My brother-in-law and my father were there, and I did not think I was getting enough. But they both retired from the firm and from business, Senator. My father retired permanently from business in 1901, and he died in January, 1925. My brother-in-law retired five or six years ago, and he has been out of business since then.

Representative McFadden. And has no interest in Lazard Freres?

Mr. Meyer. Absolutely none, and has not had for five years. It has been stated already in these hearings. I told the committee that the reason I got out, among other things, was that I did not want to be interested in international banking because I thought when I was a young man the future of banking was going to be in America and not anywhere else.

Representative McFadden. And you have no interest, directly or indirectly, in the firm of Lazard-Freres at this time?

Mr. Meyer. No; and never had, other than my salary check which I got regularly twice a month when I was working for them in 1901.

Representative McFadden. On April 24, 1930, Mr. Rand appeared before the House Banking and Currency Committee and explained to the committee the character and type of interests which constitute the Marine Midland financial group. Included in his list of directors as given during his testimony before the committee are the following:

George G. Allen, president Duke Power Co. The Duke Power Co. is one of the power companies developed in the South. This is the only one connection that I have been able to see between the Duke power interests and the northern power interests that I am referring to here. I have already mentioned to you that Arthur V. Davis, chairman of the board of the Aluminum Co. of America, is a director also of the Mohawk Hudson Power Co. The Aluminum Co. of America is controlled by the so-called Mellon group, and he is also a director of the Mellon National Bank.

Paul A. Schoellkopf, president Niagara Hudson Power Corporation, is also a director of the Duke Power Co., also Allied Chemical Co., also associated with J. P. Morgan & Co. in the United Corporation representing combination of power and utility interests in which are merged the Mellon interests, the Du Pont interests, the Brady interests, and so forth.

The Aluminum Co. and the Allied Chemical Co. are among the heaviest users of water power in the United States. As I have pointed out previously, Mr. Meyer is one of the largest stockholders of Allied Chemical Co. He told you yesterday of his stockholding interests.

George O. Muhlfeld and Bayard F. Pope are president and vice president of Stone & Webster and Stone, Webster & Blodgett (Inc.), one of the largest operators and financiers of public utilities in the United States.

Raymond V. V. Miller and Faris R. Russell are of the firm of White, Weld & Co., New York City, an investment banking house engaged together with Stone & Webster & Blodgett in the sale and distribution of the stock of the Marine Midland Corporation and other public-utility securities.

J. F. Schoellkopf, jr., of Schoellkopf, Hutton & Pomeroy (Inc.), and Seymour H. Knox, president Marine Union Investors (Inc.), are distributors in a like manner.

This power and bank group control or largely dominate many of the important distributing houses and banks in the United States, and, of course, the house of J. P. Morgan & Co.; Lazard-Freres; Kuhn, Loeb & Co.; International Manhattan Co.; Lee, Higginson & Co., head this list.

And what I am saying here not only applies to the distribution of the securities herein referred to, but applies as well to the issuance of foreign securities in which this group is interested and in which their banking groups are more materially interested.

The best illustration of this affiliation is gained from the list of banks which handled the last issue of commercialized reparation loans in the United States. I will insert that without reading it.

(The list of banks referred to and submitted by the witness is here printed in full, as follows:)

Kuhn, Loeb & Co.; Guaranty Co. of New York; Harris, Forbes & Co.; Dillon, Read & Co.; International Manhattan Co. (Inc.); Corn Exchange Bank Trust Co.; Bonbright & Co. (Inc.); Field, Glore & Co.; Stone & Webster & Blodgett (Inc.); Ladenburgh, Thalmann & Co.; Kountze Bros.; Hornblower & Weeks; J. P. Morgan & Co.; First National Bank; Bankers Co. of New York; Lee, Higginson & Co.; Halsey, Stuart & Co. (Inc.); the New York Trust Co.; Bancamerica-Blair Corporation; Spencer Trask & Co.; Hayden, Stone & Co.; E. H. Rollins & Sons; Edward B. Smith & Co.; J. G. White & Co. (Inc.); Callaway, Fish & Co.; Kissel, Kinnicutt & Co.; W. A. Harriman & Co. (Inc.); the National City Co.; Chase Securities Corporation; Kidder, Peabody & Co.; Brown Bros. & Co.; Chemical National Co. (Inc.); Chatham Phenix Corporation; J. & W. Seligman & Co.; White, Weld & Co.; Goldman, Sachs & Co.; Chas. D. Barney & Co.; Kean, Taylor & Co.; Dominick & Dominick; Lazard Freres; Clark, Dodge & Co.; Hallgarten & Co.; Hemphill, Noyes & Co.; A. Iselin & Co., Redmond & Co.

Representative McFadden. Mr. Rand is a director of the American Studebaker Corporation. The interlocking situation in that respect is that another director of the Studebaker Corporation and a close associate of Mr. Rand is Matthew Brush, president of the American International Corporation, who is a director of the bank of the Manhattan Co., of which Paul M. Warburg is chairman. Before the merger he was a director of the International Acceptance Bank, of which Paul Warburg was chairman.

The name of George Murnane was recently added to the list of the directors of the Marine Midland Corporation on November 10, 1930, shortly after Mr. Platt became an officer of the Marine Midland. He is also a director of the following companies:

The Bankers Trust Co., a Morgan company; Swedish-American Investment Trust; American Steel; Rockefeller Medical; Lee, Higginson & Co. Lee, Higginson & Co. I have pointed out to you was closely associated with J. P. Morgan & Co. and, as I understand, is the representative of the Rothschilds of Paris in this country. Just at this time this morning's papers are saying that they are about to float a loan, or to join with the syndicate to float a loan to Germany, and a portion of that is to be sold and distributed in the

United States with the French bankers. The other connection of Mr. Murnane is the American & Continental Corporation.

The Swedish-American Investment Trust is a holding corporation for the Kruger & Toll interests which own the Swedish match monopolies and have various foreign governments for their partners. Lee, Higginson & Co. have distributed their securities in this country.

The American and Continental Corporation is a subsidiary of the Bank of the Manhattan Co., of which Paul M. Warburg is chairman. The International Acceptance Bank and the Bank of the Manhattan Co. merged in 1929.

Herman A. Metz, a director of the Bank of Manhattan, is also, I believe, heavily interested in Allied Chemical.

Senator Fletcher has called your attention to a group of 25 of the so-called Morgan stocks that have, during the panic, depreciated over $17,000,000,000. The names of these companies, the number of shares outstanding, the highs of 1929 and the recent lows, loss per share, and gross shrinkage, I am placing in the record at this point. These figures are taken from an authoritative source, and I believe are correct in every particular. Senator Fletcher did not put the whole story in in regard to it.

(The list of stocks referred to and submitted by the witness is here printed in full as follows:)

[Quotations, December 1, 1930]

| Name of company | Shares outstanding | 1929 highs | Recent lows | Loss per share | Gross shrinkage |
|---|---|---|---|---|---|
| Alleghany Corporation | 4, 152, 500 | $56 | $8 | $48 | $199, 300, 000 |
| American Super Power [1] | 8, 243, 000 | 71 | 10 | 61 | 502, 800, 000 |
| American Telephone & Telegraph [2] | 17, 635, 000 | 310 | 179 | 131 | 2, 309, 600, 000 |
| Bendix Aviation [3] | 2, 097, 000 | 104 | 15 | 89 | 186, 600, 000 |
| Case Threshing Machine [3] | 194, 000 | 467 | 104 | 363 | 70, 400, 000 |
| Cerro de Pasco | 1, 123, 000 | 120 | 26 | 94 | 105, 500, 000 |
| Columbia Graphaphone | 2, 565, 000 | 89 | 10 | 79 | 203 000, 000 |
| Commonwealth Southern | 34, 000, 000 | 29 | 8 | 21 | 714, 000, 000 |
| Congoleum Nairn | 1, 641, 000 | 36 | 8 | 28 | 46, 000, 000 |
| Consolidated Gas [2] | 11, 460, 000 | 183 | 80 | 103 | 1, 180, 000, 000 |
| Continental Oil | 4, 473, 000 | 38 | 10 | 28 | 124, 700, 000 |
| Electric Bond & Share [1] | 9, 500, 000 | 180 | 39 | 141 | 1, 339, 500, 000 |
| Erie Railroad | 1, 511, 000 | 93 | 27 | 66 | 99, 700, 000 |
| General Electric | 28, 846, 000 | 101 | 45 | 56 | 1, 589, 000, 000 |
| General Motors | 43, 500, 000 | 92 | 32 | 60 | 2, 610, 000, 000 |
| Gold Dust [2] | 1, 795, 000 | 82 | 30 | 52 | 93, 300, 000 |
| International Telephone & Telegraph | 6, 572, 000 | 149 | 25 | 124 | 815, 000, 000 |
| Johns-Manville | 750, 000 | 242 | 62 | 180 | 135, 000, 000 |
| Kennecott Copper | 9, 391, 000 | 105 | 25 | 80 | 751, 200, 000 |
| Montgomery Ward [2] | 4, 600, 000 | 156 | 16 | 140 | 644, 000, 000 |
| Nevada Copper | 4, 850, 000 | 63 | 10 | 53 | 257, 000, 000 |
| Radio Corporation of America [3] | 13, 160, 000 | 115 | 13 | 102 | 1, 342, 360, 000 |
| Standard Brands | 12, 634, 000 | 44 | 14 | 30 | 379, 000, 000 |
| United States Steel (common) | 8, 560, 000 | 261 | 138 | 123 | 1, 053, 000, 000 |
| United Corporation | 7, 000, 000 | 75 | 16 | 59 | 413, 000, 000 |
| Total | | | | | 17, 162, 900, 000 |

[1] Curb Exchange stocks, floated through Bonbright
[2] Joint sponsors with First National
Joint sponsors with other houses.

*Miscellaneous*

| | No of shares | High | Low | Close |
|---|---|---|---|---|
| Abitibi. P. & P. 5's '53 | 7 | 76⅝ | 75½ | 76⅝ |
| Allegheny 5's '44 | 14 | 84⅜ | 83¾ | 83¾ |
| Allegheny 5's '49 | 6 | 83¾ | 83½ | 83¾ |
| Allis-Chalm. 5's '37 | 3 | 102 | 102 | 102 |
| Am. Ag. Ch. 7½'s '41 | 1 | 104¼ | 104¼ | 104¼ |
| Am. Beet Sug. 6's '35 | 21 | 46⅛ | 45 | 45 |
| Am. F. P. 5's 2030 | 45 | 84¼ | 83½ | 84¼ |
| Am. I. G. Ch. 5½'s '49 | 14 | 100 | 99½ | 100 |
| Am. Int. Cp. 5½'s '49 | 4 | 93½ | 93 | 93 |
| Am. N. Gas 6½'s '42 | 11 | 42¾ | 41 | 41 |
| Am. S. & R. 1st 5's '47 | 12 | 103 | 103 | 103 |
| Am. Sug. Ref. 6's '37 | 3 | 104 | 103⅞ | 103⅞ |
| Am. T. & T. cv. 4½'s '39 | 7 | 129⅞ | 128¾ | 129½ |
| Am. T. & T. 5's '65 | 112 | 107¼ | 107 | 107 |
| Am. T. & T. c. tr. 5's '46 | 13 | 106⅝ | 106 | 106 |
| Am. T. & T. 5's s. f. '60 | 20 | 107¼ | 107 | 107 |
| Am. T. & T. 5½'s '43 | 21 | 109½ | 109 | 109½ |
| Am. W. Wks. 5's '34 | 1 | 102⅛ | 102⅛ | 102⅛ |
| Am. Wat. Wk. 6's '75 | 1 | 102⅝ | 102⅝ | 102⅝ |
| Arm. & Co. 4½'s '39 | 19 | 90¾ | 89½ | 89½ |
| Arm. Del 5½'s '43 | 7 | 78½ | 78 | 78½ |
| Assoc. Oil 6's '35 | 20 | 102¾ | 102¾ | 102¾ |
| Bell Tel Pa. 5's B. '48 | 1 | 108¼ | 108¼ | 108¼ |
| Bell Tel Pa. 5's C. '60 | 2 | 112 | 112 | 112 |
| Beth. Steel pm. 5's '36 | 4 | 102¾ | 102¾ | 102¾ |
| Bk. Ed. gn. A 5's '49 | 2 | 106⅞ | 106½ | 106⅞ |
| Bush. T. Bldg. 5's '60 | 5 | 101¾ | 101¾ | 101¾ |
| Cert-td. deb. 5½'s '48 | 7 | 34⅜ | 33½ | 33½ |
| Chile Cop. db. 5's '47 | 28 | 94¼ | 93¾ | 94¼ |
| Colon Oil 6's '38 | 68 | 70 | 68 | 70 |
| Col. G. & E. 5's May '52 | 24 | 98¼ | 98 | 98 |
| Com. Inves. 5½'s '49 | 49 | 97 | 96¼ | 96⅜ |
| Com. Inves. 6's '48 | 2 | 104¾ | 104¾ | 104¾ |
| Con. G. N. Y. 5½'s '45 | 21 | 106⅛ | 105¾ | 105¾ |
| Consum. Pow. 5's '52 | 1 | 105¼ | 105¼ | 105¼ |
| C. Am. Sug. col. 8's '31 | 8 | 99⅞ | 99⅝ | 99⅞ |
| Denver Gas 5's '51 | 14 | 102¼ | 102 | 102 |
| Det. Eds. g. 4½'s Dw | 102 | 101½ | 101 | 101¼ |
| Det. Ed. rf. 6's B '40 | 6 | 105½ | 105¼ | 105¼ |
| Dodge Br. cl. 6's '40 | 9 | 89½ | 89 | 89½ |
| Duquesne 4½'s '67 | 33 | 103⅞ | 103 | 103 |
| Fisk Rub. 8's '41 | 4 | 35 | 32⅝ | 35 |
| Gen. Motors 6's '37 | 10 | 103½ | 103 | 103 |
| Gen. P. Sv. 5½'s 39 | 15 | 94½ | 94½ | 94½ |
| Gen. St. Cas. 5½'s '49 | 10 | 94½ | 93½ | 93½ |
| Gen. Th. Eq. 6's 40 | 34 | 72½ | 72½ | 72¾ |
| Goodrich cv. 6's '45 | 50 | 69⅝ | 69¼ | 69¼ |
| Good. 1st 6½'s '47 | 18 | 101 | 100⅜ | 101 |
| Goody'r Rub. 5's '57 | 21 | 89⅛ | 89 | 89 |
| Hoe & Co. 6½'s '34 | 1 | 61½ | 61½ | 61½ |
| Humble Oil 5's '37 | 1 | 101½ | 101½ | 101½ |
| Hum. O. & R. 5½'s '62 | 11 | 102¾ | 102½ | 102¾ |

THE GERMAN CHEMICAL TRUST, COMMONLY KNOWN AS THE I. G.

TRUSTS CREATED TO SAVE INDUSTRY

Applied individually by various separate manufacturing enterprises, however, even these radical reforms proved insufficient to meet the stern requirements of the financial situation. The industrial overlords, under their bankers' lash, soon saw that, to escape the catastrophe that had befallen Hugo Stinnes' sons and heirs, they would have to get together and regulate both production and prices.

Thus there came being such mighty conglomerations of industrial productivity as Vereinigte Stahlwerke A. G., commonly called the Ruhr Steel Trust; I. G. Farbenindustrie, its equivalent in the field of dyes and other synthetic chemical products; and the Potash Syndicate, a sales organization embracing all German potash mines. In the electrical industry the A. E. G. (General Electric Co.) and Siemens & Halske, both of which had working arrangements with American interests—the former with the American General Electric Co. and the latter with the Westinghouse Co.—virtually formed an electrical trust.

In the machinery, textile, and other lesser industries similar amalgamations of capital took place. Official estimates place the total number of German cartels in 1925 at some three thousand, of which 2,500 were industrial and the remainder commercial.

From the international standpoint, Vereinigte Stahlwerke (United Steel Works), with a capital of more than one billion marks, was the most important at the start, for its creation paved the way for the coming of the European Steel and Iron Cartel that established a rational partnership between Lorraine ore beds and Ruhr collieries.

*Framed after the model of the United States Steel Corporation, this* huge concern was founded in January, 1926. It comprised seven of the most important steel companies in the Ruhr and Rhineland, including the powerful Deutsch-Luxemburg, Thyssen, and Phœnix groups. In its first year Vereinigte Stahlwerke produced 7.4 million tons out of the total of 15.8 million tons of raw steel produced in Germany, or 46.8 per cent of that total. It also mined 22 per cent of the total coal production and close to one-half of the iron production.

The influence of the Ruhr trust on international steel relations has been far-reaching. It is through its efforts chiefly that the steel and iron production of most of the Continent has been aligned on a common front ostensibly directed against nobody in particular, but obviously threatening to the British and American steel industries.

INTERNATIONAL STEEL COMBINE ASSESSES PENALTIES FOR OVERPRODUCTION

Germany, with her Vereinigte Stahlwerke, provides the lion's share of the European steel cartel's annual output, 43 per cent. The Germans were most active in organizing this cartel, which came into existence in September, 1926, with France, Belgium, and Luxemburg as its other members. Primarily it is an organization for the international control of steel production. Representatives of the member States, which now also include Czechoslovakia, Austria, and Hungary, and which may shortly be joined by Poland, meet every three months to fix the total production for the ensuing three months.

Originally, the first productive quotas were fixed on the basis of each member State's production in the first quarter of 1926. The national industry of each member State obligates itself to limit its output to the quota assigned it. Each nation whose product exceeded its quota originally contributed $4 to the cartel's common fund for every excess ton of steel produced. Any nation whose production fell below its quota received from this fund $2 a ton. This scale is modified from time to time. The cartel's quarterly output now aggregates about thirty million tons.

It is interesting to note that Germany thus far has consistently produced more steel than the quota assigned to her by the cartel.

The cartel exercises no control over prices, either domestic or foreign. Thus competition in the export market exists normally among its member nations.

MORE THAN 20 TRUSTS NOW OPERATING INTERNATIONALLY

The other mutual benefit organizations internationally uniting European industry in general follow the principles of the steel cartel. There are more than 20 such trusts in official existence to-day.

They cover the following trades: Raw steel, steel rails, tubes, roll wire, rayon (artificial silk), chemicals, potash, linoleum, borax, white lead, quinine, calcium carbonate, zinc, ferromanganese, tanning extracts, activated carbon, aluminum, enameled wares, glue, plate glass, bottles, superphosphate, incandescent lamps, and copper. Germany belongs to all of them with the exception of the plate glass and copper trusts. Incidentally, the former and the bottle cartel are the only ones that were founded before the war.

France is a member of most of them, but Great Britain of only seven of the lesser ones. The United States thus far has joined only the copper and incandescent-lamp organizations.

Like the British, American industry has held aloof from the more powerful cartels, such as steel and chemicals. The former of these two offers the most direct competitive danger both to Britain and America.

As regards the chemical cartel, the backbone of which is the formidable I. G. Farbenindustrie, or German Dye Trust, there have been numerous negotiations between the Germans and Imperial Chemical Industries, (Ltd.) the foremost British concern in that trade; but thus far they have been inconclusive.

GERMAN AND FRENCH CHEMICAL INDUSTRIES COMBINE

American policy, at least as interpreted by European observers, appears to consist of establishing contacts with individual members of the cartels while holding aloof from membership in them.

Prior to the war Germany was in virtual control of the world's dyestuff markets. But during the war dye industries were built up by other great powers, including the United States and Great Britain. The consequence of this was that Germany's exports of this product dwindled dangerously. The total export of aniline dyes, for instance, dropped from 64,000 tons in 1913 to 17,000 in 1925.

In that year German dye manufacturers saw the rocks looming ahead. They lost no time in organizing a united national defense against the economic catastrophe confronting them.

Under the leadership of the former Badische Anilin-und-Soda-Fabrik, whose poison-gas plant at Ludwigshafen was the objective of so many allied air raids in the World War, and of the equally prominent Friedrich Bayer Co., internationally known as the maker of aspirin, a merger of the eight foremost chemical concerns was carried through the German Dye Trust, capitalized at 1,000,000,000 marks, came into being.

In the year after its formation Germany exported 21,000 tons of aniline dyes, and in the first 11 months of 1927 26,000 tons. During the latter year negotiations were begun in Paris for the organization of the International Chemicals Cartel.

In 1927 the signing of a Franco-German dyestuffs entente as the basis of a billion-dollar European cartel was reported.

Since the value of American chemical exports is almost $200,000,000 per annum, the menace of a pan European combine can readily be perceived.

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THE GERMAN CHEMICAL TRUST

[The Saturday Evening Post, November 1, 1930]

The limitations of space prevent any detailed account of German industry. One significant advance this year must be emphasized, however. It is the working partnership between the North German Lloyd and the Hamburg-American Lines. The pact, which at the start is a comprehensive pooling agreement, is on a strict parity basis and runs for 50 years. Each concern gets half of the profits. The arrangement will end the costly rivalry between the two leading German shipping companies and will make for reduction of overhead in the shape of single offices everywhere.

Two final details have a distinct bearing on American exports. The first grows out of the continued expansion of the German Dye Trust, the vast corporation called "I. G." for short, whose production in 1929 amounted to the equivalent of $1,000,000 000. No phase of its work is more significant than the progress made in the manufacture of synthetic gasoline. From 100 tons a day the output has grown to more than 300 tons. The process has long since reached the commercial stage. You can see tank wagons hauling the synthetic gasoline on the streets of Berlin and other cities. Though the price is not yet lower than that of gasoline made from real crude petroleum, it is giving Germany an increasing independence of American juice.

Representative McFADDEN. It would be equally interesting to have similar comparisons of the securities sponsored and sold by these other affiliations with whom Mr. Meyer is so closely affiliated.

Showing Mr. Meyer's views and connections, Mr. Meyer wrote an article which is published in the Yale Review of May, 1909, entitled "The Stock Exchange and the Panic of 1907." This is a special pleading for the New Stock Exchange. He defends the practice of short selling. He says speculation on the stock market did not cause the panic of 1907 because the banks had quietly liquidated months before. He avers that the New York Stock Exchange is an indispensable adjunct of American business life, and so forth. He says *it is better than other (foreign) stock exchanges because* it is less regulated than they are.

I recall his testimony before this committee in which he had no idea of what caused the panic of 1929. It is rather strange that Mr. Meyer seemed competent to offer a diagnosis of the panic of 1907 and can not even guess what caused the crash of 1929. Your committee should know whether Mr. Meyer still holds the opinions he expressed in this article. It has a bearing on the future conduct of the Federal reserve system and has to do with his qualifications.

Referring to the stock crash of 1929, the report to the stockholders of the International Acceptance Bank (Inc.), for the year 1928, under date of March 7, 1929, by Paul M. Warburg, chairman of the board of directors, is significant and was a large factor. Congress should know the details of the causes of this crash in order to guard against a future recurrence. The way to get the facts is for Congress to call upon the New York Stock Exchange for full facts and records of brokers who were placing big orders to sell short or actually selling short and know definitely from whence these tremendous orders for sale of important securities came. This is a matter which is easily obtainable and goes to the crux of this whole situation, disclosure of which will involve the associations of Mr. Meyer and his friends that I am referring to here, and I am stating this as further evidence to you, gentlemen, as to why Mr. Meyer should not be placed in this responsible position at the head of the banking and credit system of the United States.

Senator BROOKHART. I would like a little more detailed explanation of that, if you can make it orally.

Representative McFADDEN. I will put in the record, Senator, the report that I have referred to by Mr. Warburg, in March of 1929, and I will also call your attention to and put into the record an editorial in the New York Times commenting on that report. Those two things together were a tremendous factor in the beginning of the crash in 1929.

Senator BROOKHART. The two particular items referred to are what?

Representative McFADDEN. The report of the chairman of the board of the International Acceptance Bank for the year 1928, which was published, I think, on March 7, 1929——

Senator BROOKHART. The idea being that the report——

Representative McFADDEN. If you would like to have me read some of it, Senator, I would be glad to do so.

Senator BROOKHART. No; I want to get the bearing of the report on the panic. Did it help cause the panic? Is that the idea you suggest?

Representative McFADDEN. It was one of the most potential influences in creating in the public mind a feeling of insecurity, and you will find that tremendous selling orders immediately followed the issuance of this statement and the editorial in the New York Times of the same date.

Senator BROOKHART. Is the report of such a nature as to cause great selling orders?

Representative McFADDEN. I would say so; yes. I mention that to show that this has a bearing on the whole situation of Mr. Meyer's fitness to serve as governor of the Federal Reserve Board because of these close associations.

(The report to the stockholders of the International Acceptance Bank for the year 1928, referred to and submitted by the witness, is here printed in full, as follows:)

REPORT TO THE STOCKHOLDERS OF THE INTERNATIONAL ACCEPTANCE BANK (INC.), FOR THE YEAR 1928

It has been our custom at the annual meeting of our stockholders to give a full account of the activities of the International Acceptance Bank (Inc.), during the preceding 12 months. This year we thought it well to deviate from this custom and to delay our report until after the formal ratification and definite conclusion of the amalgamation of the International Acceptance Bank (Inc.), with the Bank of the Manhattan Co., of New York. The stockholders of the Bank of the Manhattan Co., having voted on March 5 to increase its share capital by $6,250,000 and to offer these 62,500 new shares to our stockholders in exchange for 125,000 of our shares, and 123,780 shares of our stock having been tendered for exchange, the union of these two institutions is now an accomplished fact. It ought to be added that in fact all our stockholders have informally assented, and it is due only to some technicalities (such as estate proceedings) that the actual deposit of the few shares still outstanding has been delayed.

When the count was taken of the shares deposited for exchange by our stockholders it was interesting to observe that in excess of 95 per cent of our stock was in the hands of original holders and of officers and employees of the International Acceptance Bank (Inc.), and that over 90 per cent of our stock had been pledged for exchange within four days after the formal invitation to do so had been sent out by us. It is doubtful whether the administration of any bank has ever received a more overwhelming demonstration of the loyalty and unreserved support of its shareholders. In such circumstances it is natural that I should wish to begin this report—the last one to be addressed to the stockholders of the International Acceptance Bank (Inc.), for from now on they will be holders of the stock of the Manhattan Co.—by expressing to them on behalf of my associates and myself the warmest and sincerest appreciation of the confidence they have shown and the allegiance they have given us from the very day our bank was born until now when it has closed its career as a single unit.

Upon the accomplishments of these years we may look back with undivided satisfaction. When in 1921 we ventured out into stormy and uncharted seas there were few who believed that the development of the American acceptance business would warrant the existence of an acceptance corporation operating on a substantial scale. We foresaw in the constellation then existing not only a great opportunity for the development of a new branch of American banking, but a call to make America's great gold strength available to an exhausted world desperately in need of credit and struggling to escape or emerge from the pangs of exchange instability. The opportunities for service then envisaged came true; indeed our expectations were surpassed by subsequent developments. If the graph presented in these pages, indicating the steady growth of our own acceptance business from 1921 to 1928, may be considered as typical for the development of American acceptance banking as a whole, I believe it warrants the confident assertion that Uncle Sam's position as an acceptance banker may now be considered as permanently established. It is no small satisfaction for your officers to feel that in this phase of American banking history your bank has contributed its share in rendering pioneer services.

The International Acceptance Bank (Inc.) started with a paid in working capital of $10,250,000. By the conversion of its special stock this amount has now been increased to $12,500,000, consisting of $6,250,000 of capital, with an uncalled liability of the same amount, and $6,250,000 surplus. To these funds, provided by its stockholders, the bank and its trust company have added

$5,622,945 in undivided profits and in excess of $3,000,000 in hidden reserves, free and unencumbered, to provide for unforseen contingencies. At the moment of its union with the Bank of the Manhattan Co., the International Acceptance Bank (Inc.) had, therefore, total capital funds in excess of $21,000,000. The fact that these additions to our capital funds were made, aside from the dividends paid, warrants, I believe, the statement that the earning power of the bank has more than vindicated the expectations of its organizers.

The question may well be asked why in the face of these results, attained in the brief span of less than eight years, instead of "leaving well enough alone," we thought it wise to recommend to our stockholders the adoption of a plan involving so far-reaching a change in our previous course. It ought to be emphasized at the outset that while by the acceptance of the plan our old shareholders, like the old stockholders of the Bank of the Manhattan Co., have now become joint owners of both institutions, the management and policies of the two banks will remain practically unchanged. It is, of course, expected that there will be the closest cooperation between the two, some of the principal officers of the two institutions serving on both directorates, but they will remain distinct units under two separate boards. The two companies will thus continue to serve the purposes to which they have been devoted in the past, under their original names and under a management substantially the same as that which has directed them up to the present.

In order fully to understand the considerations moving your officers and directors in recommending the amalgamation, one has to analyze the conditions and tendencies prevailing to-day in the broad field of banking. It is a fact that, not only in industry, but also in finance, we are living in the age of the horizontal and vertical trusts. Branch banking (and chain banking) express the horizontal tendency; while "a complete service," including domestic and foreign banking, acceptance facilities, the origination and distribution of securities, as well as the services of fiduciary departments, evidence the vertical tendencies, corresponding to the industrialist's ambition to cover the whole reach from the raw material to the finished article, from the producer to the consumer. I believe it is safe to say that the evolution in the industrial field, to a certain degree at least, is directly responsible for the similar development in the field of banking, because the gigantic form assumed by industrial corporations on both sides of the Atlantic render their banking requirements so large and so all-encompassing that only banks with gigantic resources of their own are able to offer them commensurate facilities. Whether or not one may regret the abandonment of the old traditional system of "specialized banking," the trend toward "departmental banking" seems irresistible at the present time.

In the midst of an era of persistent bank consolidations, the Bank of the Manhattan Co. and our bank were both faced with the alternatives either of merging with another institution specializing in the activities which they had not developed or of embarking upon a program of building up a powerful departmental organization from within. That would have meant for the Bank of the Manhattan Co., strong in the field of domestic depository and commercial banking, the task of aggressively developing its foreign and security business. Conversely, it would have meant for the International Acceptance Bank (Inc.), strong in the field of foreign banking and already established in the security business, the task of aggressively developing its activities in the domestic field. For both, these would have been very expensive undertakings, and, in view of the keen competition existing, they would have involved an uphill fight. Both institutions had already started in the direction of independently completing their structures. As will be remembered, two years ago the International Acceptance Bank (Inc.), organized the International Acceptance Trust Co. in order to cultivate domestic business, and recently the Bank of the Manhattan Co. had begun to build up a foreign department of its own and was contemplating pushing forward into the field of security distribution. In these circumstances the advantages to be gained by joining forces, by amalgamating two institutions each so admirably complementing the other, became quickly apparent, and I believe the stockholders of both may be sincerely congratulated upon the conclusion of the negotiations that brought about the happy union between them.

The consolidated balance sheet, combining the assets and liabilities of both concerns as given in their published statements as of December 31, 1928, shows $22,250,000 capital, $40,000,000 in surplus and undivided profits, and total resources slightly under $700,000,000. As may be readily seen from these figures, the amalgamation will thus give the new combination a wide power to serve its friends both at home and in foreign lands. By a greater concentration of domestic activities in the organization of the Bank of the Manhattan Co. and of foreign activities in that of the International Acceptance Bank (Inc.), it is hoped that duplications of effort will be done away with, and substantial economies and increased efficiency rendered possible.

As you will remember, since 1926, your bank has been actively and successfully engaged in the security business. This branch of its activities as well as the security business of the Bank of the Manhattan Co. will be transferred to a new corporation to be known as the International Manhattan Co. (Inc.), which will be jointly owned by the two banks. The highly developed system of branches of the Bank of the Manhattan Co. will offer, it is hoped, a promising field for the distribution of investment securities.

The balance sheet of the International Acceptance Bank (Inc.) for December 31, 1928, shows that the year just completed has been one of continued growth and satisfactory profits. Particularly gratifying is the uniformly high total of acceptances outstanding throughout the year, as is indicated on the graph on page 25. While the composite picture of the use of our acceptance facilities by our clients showed constant changes, both as to the commodities financed and the countries for which the bills were drawn, the aggregate volume outstanding showed the very satisfactory daily average of $62,635,198, as compared to $45,306,833 during 1927, and $40,259,000 during 1926. At the close of the year total acceptances outstanding amounted to $68,167,358, against $65,785,598 on December 31, 1927. As regards commissions on such business, it is unfortunately necessary to record that the ill-advised attempt on the part of American acceptors to increase their share in the business by cutting rates has continued. To this struggle we referred in our last annual report; unhappily it has again resulted during the past year in a further decline in the rate of return. Our average acceptance commission during 1928 was 1.250 per cent, compared to 1.426 per cent in 1927, 1.912 per cent in 1926, and 2.096 per cent in 1925.

As in previous years, our credits are well distributed, both geographically and by commodities; at the end of the year our acceptances covered 38 countries and 35 major commodities. I am happy to be able to report that once more the year's acceptance business was carried through without any credit loss.

In the period under review, we have arranged several important syndicate acceptance credits, as well as extended for further periods a number of such transactions arranged in previous years. The credit of $30,000,000 which we arranged in 1927 for the Deutsche Golddiskont Bank was enlarged this year to a $50,000,000 revolving reserve credit, to run for two years. Another interesting transaction, which we jointly arranged with National Bank of Commerce in New York, was the increase of the syndicate credit placed at the disposal of the Crude Rubber Agency from $40,000,000 to $60,000,000.

Our balance sheet of December 31, 1928, presented in this report, shows that the high degree of liquidity for which we have aimed from the start has been maintained.

The net earnings of the bank for the year 1928 without taking into consideration the profit from the sale of its real estate, although below the record figure for 1926, were slightly in excess of those for 1927. As in previous years, we have set aside a substantial amount for reserves, in addition to transferring $674,500 to undivided profits. In accordance with the policy announced in our annual report for 1927, the dividend rate was raised from 8 per cent to 12 per cent per annum on the paid in capital, effective January 5, 1928. At the meeting of the board of directors on January 3, 1929, on the occasion of the declaration of the dividend for the last quarter of 1928, an additional 1 per cent was declared, placing the stock on an annual dividend basis of 16 per cent. For your information we give on page 22 the usual comparative schedule of earnings and expenses.

In order to give our stockholders a complete picture of the development of the bank since its organization, most of the comparative statements and graphs in this final report to them cover the period from the close of 1921 to the end of 1928.

The activities of the bank in the issuing of securities have further developed during the past year, exceeding by a very satisfactory margin the volume of such business undertaken in 1926 and 1927. In 1928 the bank participated in the public offering of 22 issues, totaling approximately $300,000,000, and originating in the following countries: 11 in Germany, 3 in Scandinavia, 3 in

South America, 1 in Japan, and 4 in the United States. For comparative purposes we might méntion that during 1927 the bank participated in 16 issues, totaling, roughly, $200,000,000, and, in 1926, in 7 issues, totaling slightly over $112,000,000. In addition to the issues in which the bank appeared publicly during 1928 there were also a large number of syndicates in which the bank had a silent interest. From the point of view of profits, the results of this department were very gratifying.

The high efficiency attained by the staff in years past has been maintained during 1928, so that it has been possible to transact the growing volume of business with a comparatively small increase in personnel. At the close of 1928 our employees numbered 252, including all officers and clerks, as compared with a total of 238 at the close of 1927. It is a pleasure to record here once more the loyalty and devotion of the staff, many of whom have been in our employ since the establishment of the bank. The only changes that took place among the bank's officers during the year were the election of Mr. Ralph W. Proctor as treasurer, and of Mr. R. T. Giblin as manager of the commercial credit department.

In June, Mr. Horace Havemeyer, president of Havemeyers & Elder (Inc.), was elected a director of your bank, filling the vacancy occurring through the resignation of Mr. Robert F. Herrick, who had resigned in order to become a director of the International Acceptance Trust Co. At a special meeting of the stockholders on July 3, the number of directors was increased from 18 to 20, and the new seats thus created on the board were filled by the election of Mr. George V. McLaughlin, president of the Brooklyn Trust Co., and Mr. George M. Shriver, executive vice president of the Baltimore & Ohio Railroad Co.

Mr. Walter E. Frew, president of the Corn Exchange Bank, decided that, as president of an institution competing directly with the Bank of Manhattan Co., it would not be proper for him to continue to serve as a director. The board accepted Mr. Frew's resignation with profound regret, as from the first beginnings of our bank he has been one of its most valuable directors and one of its staunchest friends. In addition four members of the board of directors of the International Acceptance Bank, (Inc.) resigned so that together with your chairman, your president, and one of your vice presidents (seven in all) they might accept service on the board of directors of the Bank of the Manhattan Co. It is planned to increase the number of directors of the International Acceptance Bank (Inc.) from 20 to 25. The additional seats thus provided and the vacancies created by the resignations just mentioned will be filled by the election of three directors of the bank of the Manhattan Co., including the vice chairman and the president of that institution, and of seven directors of the International Acceptance Trust Co. The composition of the boards of the Bank of the Manhattan Co., the International Acceptance Bank (Inc.), and the International Manhattan Co. (Inc.) as they will be constituted after the completion of this program will be found in this report.

The appended balance sheet of the International Acceptance Trust Co. indicates a year of healthy growth. In order to facilitate its further development and to enhance its power to serve our friends, its capital and surplus were each increased on February 8, 1928, from $500,000 to $1,000,000, bringing its total capital funds to $2,000,000, plus undivided profits, on December 31, 1928, amounting to $445,940.

In reviewing the year's operations of the trust company, it is particularly gratifying to note the development of the strictly fiduciary business. During the year 42 corporate trustee appointments were received, in addition to a satisfactory number of personal trusteeships.

When the trust company was organized it was thought that the greatest degree of efficiency and economy in operation would be secured by treating it like a department of the bank, even though in form it represented a legal entity of its own. With this end in view the board of directors of the trust company was filled primarily from the ranks of the officers of the International Acceptance Bank (Inc.). During the past year the conclusion was reached that for the successful development of its fiduciary as well as its banking functions the trust company would be greatly strengthened if permitted to secure the support of a representative independent board of its own. As a consequence, on July 5 three of our officers resigned as directors, and at the same time authorization was obtained to increase the board from 10 to 14 members. To fill these vacancies, the following were elected: Mr. Howard S. Cullman, vice president of Cullman Bros. (Inc.); Mr. Robert F. Herrick, of

Herrick, Smith, Donald & Farley; Mr. David F. Houston, president of the Mutual Life Insurance Co. of New York; Mr. Otto v. Schrenk, of Briesen & Schrenk; Mr. Jack Straus, vice president of R. H. Macy & Co. (Inc.); Mr. John L. Wilkie, of Gould & Wilkie; and Mr. Bronson Winthrop, of Winthrop, Stimson, Putnam & Roberts. The following new officers of the trust company were elected during the year: Mr. Graham B. Blaine, Mr. C. B. Hall, and Mr. W. T. Kelly, vice presidents; Mr. R. J. Keenan, secretary; and Mr. John P. Collins and Mr. P. F. Warburg, assistant vice presidents.

The business of the trust company in due course will now be transferred to the Bank of the Manhattan Co.

On December 19, 1928, the Cedar Street Corporation signed a contract for the sale of the bank's office building at 52 Cedar Street for $1,850,000 in cash. The title was transferred on January 19, 1929. The contract gives us the privilege of occupying the building for five years. The affairs of the Cedar Street Corporation, which is owned by the International Acceptance Bank (Inc.), will now be wound up. As against the amount at which the property was carried on our books this sale results in a profit of over $900,000 which is not included in the bank's published earnings, and has been added to its assets as a building reserve.

The American & Continental Corporation has completed its fourth year of operation. We are pleased once more to be able to report satisfactory progress During the year the company has earned and paid dividends of 7 per cent on the $2,000,000 paid in class A stock ($10,000,000 subscribed), and of 8 per cent on $812,500 of fully paid class B stock, and it has added $257,137.64 to undivided profits, bringing that account to $1,578,274.47. During the year the company obtained additional working capital by selling, through a syndicate headed by Kuhn, Loeb & Co., $7,500,000 in 15-year 5 per cent gold debentures, due April 1, 1943. These funds were obtained at a cost to the company of less than 5½ per cent.

GENERAL REMARKS

We have already advanced so far into 1929 that it is too late to offer you my customary review of the past year. Suffice it to say that writers upon economics and finance are likely to record the following four events as the outstanding occurrences of 1928:

First. France's return, not only to complete exchange stability, but to a dominant position amongst the financial powers of the world.

Second. The absorption of the British currency notes by the Bank of England, accompanied by a far-reaching reconstruction of the latter's issuing department.

Third. The loss of control by the Federal reserve system over the American money market.

Fourth. The agreement by the nations concerned to convoke a conference of experts for the purpose of developing a plan for the final settlement of the reparation problem.

The first two events require further elaboration; with regard to the third and fourth, some brief observations may perhaps be opportune.

In aeronautics the public is generally inclined to look upon the art of rising into the air as the sole accomplishment. The layman is apt to overlook the fact that the mastery of the art of descending is of equal, if not greater, importance. No central banking system may safely permit its facilities to expand unless it is certain of its determination and ability to bring about contraction when circumstances require. If Doctor Eckner had not been possessed of the unrestricted authority to shape the course of his *Zeppelin* according to the meteorological conditions he would meet, and to give his orders for landing within the fraction of the second that circumstances required, if he had not been certain of the prompt response of his engines and his crew, he never could have ventured to rise. Had his maneuvers been dependent upon the directions of 120 men, acting through 12 separate boards of directors, and operating "subject to the review and determination" of a central board of eight men, who may be wide apart in their views and bewildered by political influences and attacks, his ship would have been wrecked.

Now, while it is obvious that we could not and should not give to one man, or to one single set of men, the wide autocratic powers that would assure the greatest efficiency in the administration of our central banking system, it is equally clear that, as at present constituted, the machinery governing its steering apparatus is too complicated to be either safe or efficient. The Federal reserve system, pursuing a well-conceived and far-sighted policy, rose to a position of world leadership. Yet within the short span of a year it lost that leadership, owing to its failure promptly and effectively to reverse the engines at the critical moment. The rudder then passed into the hands of stock exchange operators, who have now for many months governed the flow of money, not only in the United States, but in the principal marts of the world. History, which has a painful way of repeating itself, has taught mankind that speculative overexpansion invariably ends in overcontraction and distress. If a stock exchange debauch is quickly arrested by prompt and determined action, it is not too much to hope that a shrinkage of inflated stock prices may be brought about without seriously affecting the wider circle of general business. If orgies of unrestrained speculation are permitted to spread too far, however, the ultimate collapse is certain not only to affect the speculators themselves, but also to bring about a general depression involving the entire country.

From the economic lessons taught by the aftermath of the Great War, we learned that the excessive creation of money or bank credit without an equivalent production of assets spell inflation. Yet the public mind does not appear to realize that the creation of an inflated purchasing power is not a monopoly enjoyed by governments. When we consider that the market value of the 50 industrial stocks, the 20 public-utility stocks, and the 20 railway shares, which are used in computing the Standard Statistics Co.'s index of the prices of stocks, has grown within two years from approximately $17,500,000,000 to $33,000,000,000, we find an accretion of approximately $15,500,000,000, an accretion, in the majority of cases, quite unrelated to respective increases in plant, property, or earning power. Yet this stupendous bulge in "value" covers only a limited number of corporations, and it does not include bank stocks, or some of the subtlest elements of inflation—incorporated stock pools, called "investment trusts." Nor does it comprise the gigantic enhancement of real-estate values. One can only leave it to the imagination to guess the amount by which the inflation of values such as these exceeds the entire war debt of the United States. In order to grasp the vastness of the sums involved, it may be well to remember that the total value of our cotton, wheat, and corn crops combined would amount to approximately $4,000,000,000. There are those who claim that the increase in the market value of our securities is warranted by their intrinsic value. One might be more inclined to agree with that view if the present level of our stocks were not sustained by a colossal volume of loans carrying unabsorbed securities, of which $6,000,000,000 of brokers' loans form only a part, and if the banking structure carrying this inflated inverted pyramid did not rest on a basis of Federal-reserve credit, which in these last two years has been stretched by an increase in the earning assets of about half a billion dollars over what used to be their approximately normal size. Conditions such as these recall to our minds the painful events of the years 1919–21. Yet the parallelism between that period and the present does not seem to be properly appreciated by the general public on account of the fact that billions of dollars poured in to the stock exchange by domestic corporations and from across the seas are not revealed by the barometer indicating the Federal reserve system's condition and because the index does not register the same striking rise of commodity prices shown in the inflation priod of 1919 to 1920.

It should be remembered, however, that in those years there prevailed a shortage of commodities and a passionate demand for them, while at present the world is craving for the ownership of shares and for the satisfaction of new wants. Nobody would object to a fulfillment of these desires so long as the necessary funds were provided from savings. But when the savings of the masses are deposited as margins for stock-exchange speculations, and when the extravagant use of funds for speculative purposes absorbs so much of the nation's credit supply that it threatens to cripple the country's regular business, then there does not seem to be any doubt as to the direction in which the Federal reserve system ought to exercise its influence quickly and forcefully. People who express the fear that increases in the Federal reserve bank's rediscount rates might hurt business overlook the far greater hurt the country will have to suffer if their advice to permit the situation "to work itself out" were followed. Moreover, for approximately the last six months we have had, in effect, a bank rate of 7 or 8 per cent; for it is that rate which during that period has directed the flow of gold to our shores and which has exercised a decisive influence in the fashioning of our domestic rate structure. When commercial paper commands 5¾ per cent, and when bankers' acceptances sell at 5⅜ per cent, rediscount rates of 4½ per cent and 5 per cent seem grotesquely impotent and out of line. Procrastination in bringing such rediscount rates into a proper relation to actualities, hesitation in taking effectual means to reassert the Federal reserve system's leadership, place a grave responsibility on those in charge of its administration. It is true that our inability to develop a country-wide bill market and our failure to establish on our stock exchange a system of term-settlement dealings aggravate the difficulties of our problem. But these defects of our system render the need for determined leadership all the more imperative. That the country's banking system is tossing about to-day without its helm being under the control of its pilots gives cause for deep concern. Yet the fault does not seem to lie so much with the men in charge of it as with the structural defect of its administrative organization. The banking fraternity would be well advised to anticipate radical congressional proposals by taking the lead in seeking the lines along which reform may be brought about.

With regard to the fourth of the principal events of 1928, the calling of the conference of experts for the final settlement of the reparation problem, one might well say that in the realm, not only of economics and finance but also indeed of international relations, nothing could prove of greater benefit than the finding of a fair and permanent solution of this puzzling question. The exceptional qualification of the representatives delegated by the countries involved warrants the highest hopes and expectations for a favorable outcome of their deliberations. On the other hand, we must remain mindful of the appalling difficulties of the task.

It would not be surprising if in the end the experts should find that, aside from "deliveries in kind," "Germany's capacity to pay" will largely depend upon "Germany's capacity to borrow." In that case the experts' principal problem would resolve itself into gauging the ability and willingness of international markets to absorb German loans for a given number of years and into estimating the amount up to which Germany from year to year, by borrowing for productive purposes, might increase here foreign indebtedness without destroying the credit which obviously forms the basis of her "capacity to borrow."

In spite of the wide gap which, in the public mind, separates hopes from realities, the character and ability of the men struggling with the problem encourages the belief that a proper solution will be found and that the prestige of its sponsors may enable the Governments concerned to carry it into effect.

I can not close this report without expressing once more, on behalf of my fellow directors and myself, the sincerest appreciation of the excellent work done by the officers of the bank, and on behalf of my fellow officers their profound gratitude for the loyal and invaluable support they have received from the directors and our stockholding associates both in the United States and across the seas. The results achieved are due in large part to the intimate cooperation of these three elements, and it is my earnest hope that this happy relationship will remain as close and auspicious in the future as it has been in the past. I consider this bond between directors, officers, and stockholders and the spirit of loyal devotion that permeates the bank the two most valuable assets in its balance sheet.

BANK OF THE MANHATTAN CO., BOARD OF DIRECTORS

Chairman: Stephen Baker.
Associate chairman: Paul M. Warburg.
Vice chairman: P. A. Rowley.
President: J. Stewart Baker.
Members: Hon. Frank F. Adel, county judge; J. E. Aldred, Aldred & Co.; Henry C. Bohack, president H. C. Bohack & Co. (Inc.); Bertram H. Borden, president M. C. D. Borden & Sons (Inc.); Matthew C. Brush, president American International Corporation; Harry I. Caesar, H. A. Caesar & Co.; George W. Fennell, Geo. Fennell & Co.; Marshall Field, president Field, Glore & Co.; Michael Friedsam, president B. Altman & Co.; F. Abbot Goodhue, president International Acceptance Bank (Inc.); Joseph Huber, Brooklyn, N. Y.;

Raymond E. Jones, first vice president. David H. Knott, chairman The Knott Corporation; George McNeir, chairman Mohawk Carpet Mills (Inc.); Herman A. Metz, president H. A. Metz & Co. (Inc.); John C. Moore, president Tiffany & Co.; George S. Patterson, Geo. H. McFadden & Bro.; George M. Shriver, senior vice president Baltimore & Ohio Railroad Co.; Samuel Sloan, vice president Farmers Loan & Trust Co.; James Speyer, Speyer & Co.; Carl F. Sturhahn, president Rossia Insurance Co., Hartford; James P. Warburg, president International Manhattan Co. (Inc.); H. Pushae Williams, president First Mortgage Guarantee Co.; Daniel G. Wing, chairman First National Bank of Boston.

*Consolidated statement showing a combination of the balance sheets of Bank of the Manhattan Co. and International Acceptance Bank (Inc.) as of December 31, 1928*

RESOURCES

| | |
|---|---|
| Cash on hand and in Federal reserve bank | $27, 148, 920. 07 |
| Due from banks and bankers | 236, 294, 632. 60 |
| *Call loans secured by acceptances* | 5, 175, 000. 00 |
| Acceptances of other banks | 6, 500, 225. 44 |
| United States Government, State, and municipal bonds | 29, 557, 839. 75 |
| Collateral loans | 109, 650, 964. 74 |
| Loans and discounts | 150, 767, 319. 31 |
| Other bonds and securities | 15, 722, 080. 16 |
| Customers' liability for acceptances (less anticipations) | 89, 563, 395. 85 |
| Bank premises | 10, 807, 652. 98 |
| Other assets | 1, 629, 927. 64 |
| | 682, 817, 958. 54 |

LIABILITIES

| | | |
|---|---|---|
| Capital | $22, 250, 000. 00 | |
| Surplus and undivided profits | 42, 572, 136. 49 | |
| | | $64, 822, 136. 49 |
| Reserve for dividends | | 770, 625. 00 |
| Deposits and due to banks and customers | | 519, 355, 236. 19 |
| Acceptances outstanding | | 93, 195, 847. 07 |
| Unearned discount | | 1, 013, 838. 69 |
| Reserve for taxes | | 577, 218. 37 |
| Other liabilities | | 3, 083, 056. 73 |
| | | 682, 817, 958. 54 |

INTERNATIONAL ACCEPTANCE BANK (INC.) BOARD OF DIRECTORS

Chairman: Paul M. Warburg.

Vice chairman: J. Stewart Baker.

President: F. Abbot Goodhue.

Members: Newcomb Carlton, president Western Union Telegraph Co.; Howard S. Cullman, vice president Cullman Bros. (Inc.); Horace Havemeyer, president Havemeyers & Elder (Inc.); Robert F. Herrick, Herrick, Smith, Donald & Farley, Boston; David F. Houston, president Mutual Life Insurance Co. of New York; George V. McLaughlin, president Brooklyn Trust Co.; L. Nachmann, vice president; P. A. Rowley, vice chairman Bank of the Manhattan Co.; Otto V. Schrenk, Briesen & Schrenk; Charles B. Seger, chairman of the Finance Committee, Union Pacific Railroad Co.; Lawrence H. Shearman, vice president W. R. Grace & Co. (Inc.); William Skinner, William Skinner & Sons; Philip Stockton, president Old Colony Trust Co., Boston; Charles A. Stone, chairman Stone & Webster (Inc.); Jack Straus, vice president R. H. Macy & Co. (Inc.); Henry Tatnall, retired vice president Pennsylvania Railroad Co.; Felix M. Warburg, Kuhn, Loeb & Co.; James P. Warburg, president International Manhattan Co. (Inc.); Thomas H. West, jr., president Rhode Island Hospital Trust Co., Providence, John L. Wilkie, Gould & Wilkie; Bronson Winthrop, Winthrop, Stimson, Putnam & Roberts, and George Zabriskie, Zabriskie, Sage, Gray & Todd.

*Statement of condition, International Acceptance Bank (Inc.), as of December 31, 1928*

RESOURCES

| | | | |
|---|---|---|---|
| Stockholders' liability for uncalled subscriptions | $5,625,000.00 | | |
| Cash on hand and due from banks | | $8,098,396.60 | |
| Call loans secured by acceptances | | 5,175,000.00 | |
| Acceptances of other banks | | 6,108,214.48 | |
| | | | $19,381,611.08 |
| United States Government, State, and municipal bonds | | | 12,076,382.47 |
| Collateral loans | | | 8,683,515.40 |
| Loans and advances: | | | |
| Due within 30 days | | $6,496,070.57 | |
| Due after 30 days | | 3,736,146.20 | |
| | | | 10,232,216.77 |
| Other bonds and securities | | | 6,964,482.89 |
| Customers' liability for acceptances (less anticipations) | | | 65,218,655.24 |
| Customers' liability under letters of credit | | | 9,900,268.20 |
| Accrued interest receivable and other assets | | | 308,762.11 |
| | | | 132,765,894.16 |

LIABILITIES

| | | |
|---|---|---|
| *Capital and surplus fully subscribed* | *$17,000,000.00* | |
| Capital paid in | | 5,750,000.00 |
| Surplus paid in | | 5,625,000.00 |
| Undivided profits | | 5,177,005.21 |
| Reserve for dividends payable Jan. 15, 1929 | | 170,625.00 |
| Due to banks and customers | | 37,694,548.47 |
| Acceptances outstanding | | 68,167,358.87 |
| Letters of credit | | 9,900,268.20 |
| Reserve for taxes, unearned discount, and other liabilities | | 281,088.41 |
| | | 132,765,894.16 |
| Contingent liability, including American bank acceptances, American trade acceptances with bank indorsements bought for account foreign customers: Foreign currency bills, etc., sold | | 26,632,856.54 |

INTERNATIONAL MANHATTAN CO. (INC.) BOARD OF DIRECTORS

Stephen Baker, J. Stewart Baker, F. Abbot Goodhue, P. A. Rowley, Paul M. Warburg, James P. Warburg, president.

*International Acceptance Trust Co. comparative balance sheet as of December 31*

| | 1926 | 1927 | 1928 |
|---|---|---|---|
| RESOURCES | | | |
| Cash and due from banks | $1,342,332.77 | $1,424,354.90 | $3,935,427.61 |
| U. S. Government, State, and municipal bonds | 2,035,680.00 | 4,263,776.88 | 3,247,812.50 |
| Loans and discounts | 4,570,268.48 | 3,745,573.07 | 10,389,990.00 |
| Other bonds and securities | 2,562,581.53 | 2,778,441.84 | 1,879,535.02 |
| Federal Reserve bank stock | 30,000.00 | 30,000.00 | 60,000.00 |
| Accrued interest, etc. | 63,819.07 | 57,920.56 | 129,162.05 |
| | 10,604,681.85 | 12,300,067.25 | 19,641,927.18 |
| LIABILITIES | | | |
| Capital | 500,000.00 | 500,000.00 | 1,000,000.00 |
| Surplus | 500,000.00 | 500,000.00 | 1,000,000.00 |
| Undivided profits | 53,000.00 | 190,007.40 | 445,940.48 |
| Deposits | 9,536,775.27 | 11,084,797.66 | 17,118,607.13 |
| Reserve for Taxes, etc | 14,906.58 | 25,262.19 | 77,379.57 |
| | 10,604,681.85 | 12,300,067.25 | 19,641,927.18 |

*International Acceptance Bank, (Inc.), schedule of earnings and expenses, year ending December 31*

| | 1921 | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 |
|---|---|---|---|---|---|---|---|---|
| Earnings | $542, 038 | $1, 571, 718 | $1, 651, 030 | $2, 539, 320 | $3, 790, 019 | $3, 293, 196 | $3, 129, 387 | [1] $3, 348, 201 |
| Expenses | 452, 453 | 500, 518 | 683, 775 | 759, 552 | 907, 883 | 995, 193 | 1, 025, 569 | 1, 213, 248 |
| Net earnings | 89, 585 | 1, 071, 200 | 967, 255 | 1, 779, 768 | 1, 882, 136 | 2, 298, 003 | 2, 103, 818 | 2, 134, 953 |
| Taxes, profit-sharing charge offs, extr. reserves, etc | 7, 585 | 183, 700 | 304, 119 | 837, 089 | 927, 000 | 1, 310, 300 | 1, 042, 568 | 798, 066 |
| Dividends paid | | | | | 205, 000 | 410, 000 | 461, 250 | 662, 387 |
| Transferred to undivided profits | 82, 000 | 887, 500 | 663, 136 | 942, 679 | 750, 136 | 577, 703 | 600, 000 | 674, 500 |

[1] Does not include profit from sale of bank's real estate.

NOTE.—Figures shown for 1921 are for Apr. 1 to Dec. 31.

*International Acceptance Bank (Inc.), comparative balance sheet as of December 31*

| | 1921 | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 |
|---|---|---|---|---|---|---|---|---|
| RESOURCES | | | | | | | | |
| Stockholders' liability for uncalled subscriptions | $5, 000, 000 | $5, 000, 000 | $5, 000, 000 | $5, 000, 000 | $5, 000, 000 | $5, 000, 000 | $5, 000, 000 | $5, 625, 000 |
| Cash on hand and due from banks | 3, 501, 569 | 7, 154, 615 | 6, 253, 734 | 7, 582, 067 | 10, 369, 631 | 11, 076, 477 | 11, 187, 745 | 8, 098, 397 |
| Acceptances of other banks | 1, 862, 869 | 2, 115, 255 | 3, 623, 226 | 5, 092, 527 | 4, 220, 568 | 5, 751, 414 | 5, 208, 068 | 6, 108, 214 |
| Call loans secured by acceptances | | | | 4, 810, 000 | 4, 600, 000 | 5, 214, 046 | 5, 399, 000 | 5, 175, 000 |
| United States Government, State, and municipal bonds | 8, 531, 170 | 10, 885, 686 | 12, 456, 643 | 15, 132, 074 | 11, 678, 309 | 11, 495, 726 | 15, 406, 228 | 12, 076, 382 |
| Collateral loans | | | 5, 359, 234 | 5, 991, 502 | 4, 517, 320 | 5, 798, 549 | 3, 205, 022 | 8, 683, 516 |
| Other loans and advances | 2, 042, 464 | 2, 699, 975 | 8, 097, 547 | 13, 866, 582 | 6, 374, 851 | 5, 946, 461 | 7, 540, 098 | 10, 232, 217 |
| Other bonds and securities | 2, 119, 079 | 3, 229, 429 | 5, 475, 717 | 6, 100, 456 | 5, 580, 205 | 7, 798, 650 | 8, 585, 414 | 6, 964, 483 |
| Customers' liability for acceptances (less anticipations) | 9, 977, 936 | 27, 045, 622 | 31, 223, 649 | 37, 244, 854 | 43, 711, 948 | 44, 224, 162 | 62, 663, 771 | 65, 218, 655 |
| Customers' liability under letters of credit | 3, 412, 679 | 5, 611, 384 | 6, 775, 729 | 8, 146, 520 | 9, 082, 844 | 8, 082, 469 | 11, 144, 264 | 9, 960, 268 |
| Other assets | 125, 016 | 199, 124 | 268, 855 | 260, 516 | 211, 119 | 234, 126 | 254, 361 | 308, 762 |
| | 31, 572, 782 | 58, 941, 090 | 79, 534, 334 | 104, 227, 098 | 100, 346, 795 | 105, 622, 080 | 130, 591, 971 | 132, 765, 894 |

*International Acceptance Bank (Inc.), comparative balance sheet as of December 31*—Continued.

| | 1921 | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 |
|---|---|---|---|---|---|---|---|---|
| LIABILITIES | | | | | | | | |
| Capital and surplus fully subscribed | 15,250,000 | 15,250,000 | 15,250,000 | 15,250,000 | 15,250,000 | 15,250,000 | 15,250,000 | 17,000,000 |
| Capital paid in | 10,250,000 | 10,250,000 | 10,250,000 | 5,250,000 | 5,250,000 | 5,250,000 | 5,250,000 | 5,750,000 |
| Surplus paid in | | | | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 | 5,625,000 |
| Undivided profits | 82,000 | 969,520 | 1,632,565 | 2,575,279 | 3,325,136 | 3,902,703 | 4,502,968 | 5,177,005 |
| Due to banks and customers | 6,704,956 | 13,074,143 | 28,186,825 | 44,460,169 | 30,896,606 | 35,876,466 | 38,457,986 | 37,694,549 |
| Acceptances outstanding | 11,089,292 | 28,833,976 | 32,590,356 | 38,650,169 | 46,527,795 | 47,117,539 | 65,785,598 | 68,167,359 |
| Letters of credit | 3,412,678 | 5,611,384 | 6,775,729 | 8,146,519 | 9,082,844 | 8,082,469 | 11,144,263 | 9,900,268 |
| Reserves for taxes, unearned discount, etc | 33,856 | 202,067 | 98,768 | 144,962 | 264,414 | 290,403 | 297,406 | 281,088 |
| Reserve for dividend payable | | | | | | 102,500 | 153,750 | 170,625 |
| | 31,572,782 | 58,941,090 | 79,534,334 | 104,227,098 | 100,346,795 | 105,622,080 | 130,591,971 | 132,765,894 |

*International Acceptance Bank (Inc.)—Acceptance statistics—Analysis of acceptances outstanding on December 31*

| | 1925 | 1926 | 1927 | 1928 |
|---|---|---|---|---|
| Exports from United States | $18, 487, 901 | $19, 713, 688 | $25, 924, 586 | $30, 804, 534 |
| Imports to United States | 15, 440, 874 | 9, 395, 979 | 10, 220, 300 | 10, 460, 053 |
| Movement of merchandise between foreign countries | 10, 559, 141 | 11, 842, 906 | 18, 264, 720 | 20, 660, 813 |
| Merchandise stored in warehouse | 1, 111, 798 | 4, 356, 602 | 10, 256, 454 | 4, 019, 590 |
| Dollar exchange | 928, 080 | 1, 808, 363 | 1, 119, 538 | 2, 222, 368 |
| | 46, 527, 794 | 47, 117, 538 | 65, 784, 598 | 68, 167, 358 |

*Countries and major commodities covered by acceptances outstanding December 31*

| | Countries | Commodities | | Countries | Commodities |
|---|---|---|---|---|---|
| 1921 | 14 | 21 | 1925 | 25 | 33 |
| 1922 | 14 | 22 | 1926 | 37 | 32 |
| 1923 | 23 | 29 | 1927 | 35 | 33 |
| 1924 | 23 | 29 | 1928 | 38 | 35 |

*Daily average of acceptances outstanding*

| | | | |
|---|---|---|---|
| 1922 | $18, 764, 000 | 1926 | $40, 259, 000 |
| 1923 | 24, 809, 200 | 1927 | 45, 306, 833 |
| 1924 | 30, 600, 000 | 1928 | 62, 635, 198 |
| 1925 | 39, 100, 000 | | |

[The New York Times, Saturday, March 9, 1929]

MR. WARBURG'S PLAIN WORDS

When speculation in stocks had lately reached a pitch of exceptional violence, and the money market appeared to be raising danger signals, it was often asked why financiers of light and leading did not speak out and say frankly what was happening and what its consequences were likely to be. The absence of such declaration, with the mild circumlocutions on the question even in last October's bankers' convention, were largely responsible for the speculative market's attitude toward the Federal reserve. If the Reserve Board's warnings actually reflected the belief of the great body of serious and enlightened men of affairs, why did not those men come into the open and lend their personal support to the Reserve Board's contentions?

Under such circumstances, the plain talk of Mr. Paul M. Warburg to the shareholders of the International Acceptance Bank comes like a breath of fresh air. He is among our highest practical authorities on finance. His judgment is cool and his financial experience wide; he was one of the high officials who steered the Federal reserve through the perilous water of war-time finance. Probably he was as reluctant as any company manager could have been to utter public warnings which might indirectly make more difficult the path of enterprises with which he is himself identified. But he speaks with candor and courage.

In the present phenomena of speculation Mr. Warburg finds disquieting reminders of 1919 and 1920. The parallel has been commonly overlooked because there has been no such rise in commodity prices as occurred in the markets of that time. But this merely means that the focus of speculation has shifted from commodities to stocks. Mr. Warburg does not deny that "craving for the ownership of shares and for the satisfaction of new wants" is legitimate, but he shows that another question must arise, "when the savings of the masses are deposited as 'margins' for stock-exchange speculations, and when the extravagant use of funds for speculative purposes absorbs so much of the Nation's credit supply that it threatens to cripple the country's regular business."

We learned 9 or 10 years ago, he proceeds, that creation of excessive bank credit " without an equivalent production of assets spells inflation." But to-day we have the picture of a stock market in which the aggregate valuation of 90 typical shares has risen $15,500,000,000 in two years, or something like 88 per cent, " an accretion, in the majority of cases, quite unrelated to respective increases in plant, property, or earning power." Moreover, the list of stocks which shows this stupendous marking up of prices " does not include bank stocks or some of the subtlest elements of inflation—incorporated stock pools, called 'investment trusts.'" To those who argue that this increase in market valuation is warranted by enhancement of intrinsic worth, Mr. Warburg replies that the high price level is " sustained by a colossal volume of loans carrying unabsorbed securities, of which $6,000,000,000 of brokers' loans form only a part."

He expresses the positive judgment that reserve bank rates ought to have been raised higher; that a 4½ or 5 per cent rediscount rate is " impotent and out of line" with commercial paper bringing 5¾ per cent and bankers' acceptances 5⅜. Under existing circumstances it is the stock-exchange operators " who have now for many months governed the flow of money, not only in the United States but in the principal marts of the world." If what Mr. Warburg frankly describes as " the orgies of unrestrained speculation" are permitted to spread too far, he considers that " the ultimate collapse is certain not only to affect the speculators themselves, but also to bring about a general depression involving the entire country."

These are serious and weighty words. Coming from so eminently practical and highly conservative a source, their account of the existing situation and of its meaning can hardly fail to have some effect in clearing up the financial mind.

Senator CAREY. You referred to these allied companies that Mr. Meyer was connected with. How do you connect him with them? On account of his being a stockholder of the company he mentioned the other day, the Allied Chemical Co.?

Representative McFADDEN. That is one; and on account of his close associations of the past. I am going to cover that as I proceed.

Again I desire to emphasize that which I have previously stated, that is, the manner by which the Federal reserve credit is utilized by this particular group, which group controls the largest financial institutions in the United States. Their controlled companies and banks are the borrowers and lenders and now they want to make sure that they absolutely control the Federal reserve system and its operations. They were defeated in their attempt to put a man on the Supreme Court by the United States Senate, and now these same interests, always alert and this time " with a most willing subject," are trying to put a man on the Federal Reserve Board. It is the duty of your committee and the United States Senate to see to it that this is not done.

This financial crowd—and I am referring to them in this manner because sometimes they work together and sometimes separately—it is my observation that they always have their key men in key positions in banks and industry and in the various departments here that can and will carry out their bidding.

In the twilight zone in this respect are Mr. S. Parker Gilbert, Mr. Roscoe C. Leffingwell, and Mr. Paul Warburg. Messrs. Gilbert and Leffingwell were the Undersecretaries of the Treasury during Mr. Meyer's Government-bond operations in the War Finance Corporation, to which I have previously referred. Both of these men came to the Treasury from, and when they left the Treasury returned to, the firm of Cravath, Henderson, and so forth, attorneys for Kuhn, Loeb & Co. They are now both members of the banking house of

J. P. Morgan & Co. At or about the time when they were Under-secretaries of the Treasury, Mr. Paul Warburg was a member of the Federal Reserve Board. He resigned May 12, 1918.

I am quoting from the New York Times of that date, which said:

In his resignation to the President, Paul Warburg tenders his resignation on grounds of kinship with two brothers, one with German International Bank and one in Switzerland, supposed to be in secret service.

Paul Warburg has always been a unique influence in Federal reserve circles. I invite you Senators to read the two books he has recently published on the Federal reserve system. These books will open your eyes. It is plain from Warburg's public criticism of the Federal Reserve Board's policies, and his views and recommendations, that there should be bank representation on the board, and so forth, that he is the person who wishes to dominate the Federal reserve system. I believe that he would prefer it to be a central bank in the European sense, with reserve districts consolidated to increase concentration of reserve funds. This would be fatal.

I read with a great deal of interest yesterday the statement that was made by Owen D. Young. Mr. Young is certainly an outstanding man in this particular group. He suggests that all banks of the United States should be made members of the Federal reserve system.

Senator BROOKHART. I have been reading Warburg's books.

Representative McFADDEN. I do not care to comment further on it, but it has a bearing upon the centralization of the finances of this country within the control of this particular group.

Senator BROOKHART. That was the idea, no doubt.

Representative McFADDEN. It seems to me there is coming to be altogether too much concentration. If concentration is increased, access to the reserve funds will be made easier for banks and individuals who wish to use the system as a whole; that is, as a central bank, a supergovernment.

Now, to show the activity of Mr. Warburg in regard to these various companies during the period of Mr. Meyer's activities here in the War Finance Corporation which led up to that period which Mr. Meyer described to you the other day, the period of 1920, when he retired from the Federal Reserve Board because of differences with the Secretary of the Treasury and the Governor of the Federal Reserve Board——

Senator BROOKHART. You mean, the War Finance Corporation?

Representative McFADDEN. Yes; I said War Finance Corporation—the New York Times of December 5, 1919, said: "P. M. Warburg opposes money plan, New York Stock Exchange."

New York Times, November 5, 1919: "P. M. Warburg returns from Europe."

New York Times, September 27, 1920: "P. M. Warburg returns to New York on board the *Rotterdam*."

May 1, 1920: "P. M. Warburg at meeting of Academy of Political Science pleads for sound banking principles."

April 15, 1917: "P. M. Warburg suggests allowing savings banks to join Federal reserve system."

New York Times, February 7, 1919: "P. M. Warburg, chamber of commerce speech, favors Government control of railroads."

New York Times, March 14, 1919: "P. M. Warburg heads American Acceptance Council."

The various amendments in the organization incident to the financing of acceptances were a most interesting part of this whole situation. I will deal with certain phases of that a little bit later on.

The New York Times reports on April 3, 1919, that Mr. Warburg addresses Council of Foreign Relations at Metropolis Club, New York.

May 24, 1919, discussed problems of railroads before Bar Club, New York.

June 10, 1919, Senators call J. P. Morgan, J. H. Schiff, P. M. Warburg, and Thomas Lamont.

New York Times, April 19, 1917: "At the suggestion of P. M. Warburg, move is made by Federal Reserve Board to take over financial direction of New York Stock Exchange."

I mention that to show the activities of Mr. Warburg. He has written and published many speeches and volumes of books, and recently the two new books which he has published are of particular importance and show his continuing interest in Federal reserve operations.

To show the foreign relationship of this group, it is interesting to note——

Senator BROOKHART. In a recent book of his he quotes somebody as saying that Congress has no more to do with making the laws than a bookbinder has to do with making a book; it is outside influences altogether that make our laws. That is one of Mr. Warburg's philosophies.

Representative McFADDEN. It is interesting to note an article in the New York Herald, July 15, 1921, entitled "Foreign Relations Council Launched." Among the incorporators we find the following names listed: George W. Wickersham and Paul M. Warburg. This article tells of the incorporation of this council, and among the petitioners' names mentioned are Paul D. Cravath, Oscar S. Strauss, Hamilton Holt, Mortimer L. Schiff, Otto H. Kahn, Henry L. Stimson.

The day before, July 14, in the same paper appears an item: German Credit Is Plan of Bankers. From this article we learn of negotiations for $49,000,000 to cover purchase of grain, and so forth. The American negotiators of this loan are given as International Acceptance Bank, Paul M. Warburg, chairman, and the First National Bank of Boston, which is closely affiliated with the International Acceptance Bank. Among other interesting notes of this article we read:

A recent Reserve Board ruling permits the purchase by reserve banks of six months' paper required by overseas usages.

That connects up with this particular situation which Mr. Meyer has related to you in the beginning of these hearings, incident to his resignation in 1920.

The New York Herald of July 22, 1921, tells of another financial syndicate operation in which the International Acceptance Bank, First National Bank of Boston, and N. M. Rothchild & Sons, London, participated.

Here is a quotation from the report to the stockholders of the International Acceptance Bank dated March 7, 1929:

The activities of the bank in the issuing of securities have further developed during the past year, exceeding by a very satisfactory margin the volume of such business undertaken in 1926 and 1927. In 1928 the bank participated in the public offering of 22 issues, totaling approximately $300,000,000, and originating in the following countries: 11 in Germany, 3 in Scandinavia, 3 in South America, 1 in Japan, and 4 in the United States. * * * In addition to the issues in which the bank appeared publicly during 1928, there were also a large number of syndicates in which the bank had a silent interest.

The history of the International Acceptance Bank is a most interesting one. Some years ago the American Bankers Association, after having made a careful study of international trade relationships, concluded that it would be helpful to have an international acceptance company owned and operated by the larger banks of the association who located in the principal cities of the country with $100,000,000 capital, and they started to organize such an institution. Notwithstanding this fact, the organization was delayed, and finally the plan was headed off and the plan died what was supposed to have been a natural death. I have been reliably informed that this project was headed off deliberately by Mr. Paul Warburg, and shortly thereafter he established his own company under the title "International Acceptance Bank," which institution now is one of the most important international acceptance banks in the world, and is a part of the Manhattan group which is controlled by Mr. Warburg and his brother, Mr. Felix Warburg, and those associated with him. Acceptances of this institution were a long time ago made eligible for rediscount directly with the Federal reserve banks. An interesting connection of the New York Warburgs is their partnership in Warburg Bros., a German banking house of many years' standing, belonging to the Warburg family.

Now, I want to enumerate, as I have just enumerated to you Mr. Warburg's activities, the activities of Mr. Meyer during this same particular period of his operations, which will give you a bearing on the kind of activities with which Mr. Meyer has been associated, and which have a direct bearing on his fitness to be a member of the Federal Reserve Board and its governor.

The New York World, under date of December 3, 1910, page 11, column 2, had this heading:

Market demoralized by heavy liquidation; bear attacks upon Steel common, Union Pacific, and Reading accompany it.

The the article proceeds:

Heavy liquidattion and an attack on United States Steel, Union Pacific, and Reading, the pool specialities, demoralized the stock market yesterday. Steel broke to 72⅝, the lowest point since October; Union Pacific declined to 168¼; and Reading to 144⅜. Over 256,000 shares of steel were dealt in. There was a widespread report that the pool was liquidating. Near the close bankers steadied the market with buying orders. The break was purely speculative.

Whether the so-called steel syndicate has made losses in its campaign is a matter of conjecture. The men credited with being the syndicate deny that there is one. The report for nearly six weeks has been the Eugene Meyer, jr., George Blumenthal, and Bernard M. Baruch, with a French syndicate, bought an enormous block of Steel below 70, with a determinatiton to put the price to par. This alleged pool carried about 600,000 shares, and about the time its speculations began a bet of $20,000 was said to have been made that steel common would sell at par before January 10 next.

Senator BROOKHART. What date was this?

Representative McFADDEN. December 3, 1910.

Senator GOLDSBOROUGH. Who made the bet?

Representative McFADDEN. It does not say. Did you want to cover it?

Senator GOLDSBOROUGH. You would not expect a Senator to cover it, would you? It takes international bankers to do that.

Representative McFADDEN (reading further):

Among those credited in Wall Street rumors with being active in the pool is George W. Perkins, of J. P. Morgan & Co., but this is not generally believed. Wall Street was filled with gloom yesterday, and all hope of a big Christmas market seemed to have been dissipated for the time being, at least.

On September 14, 1910, Meyer gave a dinner for leading copper men of the United States and J. P. Morgan for the purpose of planning a copper consolidation similar to the United States Steel Corporation.

The New York Times, February 28, 1919, stated that Meyer started advocating a policy of unloading Europe's troubles on the United States; explains the need of a section of foreign trade in the Victory loan bill. December 14, he proposes alien loan markets for foreign investment in the United States. On January 4, 1920, he urges a world market for foreign bonds. On October 9, 1920, he said excess-profits tax was unfair. That was said at a Senate hearing.

The New York World, May 28, 1911, said:

George W. Perkins, who retired last January from the firm of J. P. Morgan & Co., is credited in Wall Street gossip with having reorganized the steel pool which put the stock up two years ago from 41 to the neighborhood of 95. Among the other members of the pool are said to be Frank A. Munsey, who made millions out of the last big rise in steel, and Eugene Meyer, jr. The new syndicate is said to be closely allied with a French banking interest, and there is renewed talk of an attempt to list the stock on the Paris Bourse. In view of the great prostration in the steel industry, many Wall Street men are skeptical of the pool's ability to induce public support to a bull campaign in steel common. The last movement did distribute a very large amount of the stock among the public. After the campaign was over it transpired that Wall Street brokerage houses owned about one-third of the entire outstanding common stock of the United States Steel Corporation. There has been very little opportunity during the last two years for these firms to decrease their commitments in the stock.

Mr. Meyer was a member of the New York Stock Exchange from 1901; also a member of the New York Cotton Exchange. The Boston Stock Exchange firm of Eugene Meyer & Co., was organized in May, 1912. His partner was Charles I. Thurnauer, a French citizen.

On February 18, 1920, he resigned as a director of National Aniline & Dye Co. This is one of the companies taken over by Allied Chemical Co.

In 1918 he was a director of Consolidated & Utah Copper Co. On January 30, 1919 he was made managing director of the War Finance Corporation.

The New York World, August 24, 1917, page 4, column 6, carried this heading:

Baruch sells his seat on exchange; well-known operator may be made Federal purchasing agent, so quits trading.

I mention this because Mr. Baruch was closely associated with Mr. Meyer during his activities in the New York market. The article then proceeds:

Bernard M. Baruch has sold his seat on the stock exchange to Francis W. Welch for $58,000 and will retire from Wall Street activities, at least during the war. Mr. Baruch will devote himself entirely to the duties of his position on the buying committee of the War Industries Board and then may become the purchasing agent of the Federal Government, if such a position is created. It is expected that Eugene Meyer, jr., who was a big operator on the exchange and close associate of Mr. Baruch in his speculation, will become assistant purchasing agent of the Government. My Meyer recently retired with a big fortune.

New York Times, December 10, 1919:

Mr. Eugene Meyer, jr., advocates history of foreign international loans in American markets.

New York Times, December 14, 1919:

Eugene Meyer, jr., would make foreign investments easy here as means of stabilizing international commerce and finance.

New York Times, May 25, 1920:

Engene Meyer, jr., resigns over differences with Secretary of Treasury on account of foreign financing.

New York Times, March 27, 1920:

E. Meyer, jr., wants action to fix policy on German trade by political parties. Sees great opportunities.

Senator BROOKHART. Who was the Secretary of the Treasury at that time?

Representative McFADDEN. March, 1920? Mr. Mellon.

Senator BROOKHART. No; he went in in 1921.

Representative McFADDEN. That is right. Carter Glass was Secretary of the Treasury then.

Senator BROOKHART. When did Houston go in?

Senator CAREY. It must have been Houston at that time.

Representative McFADDEN. It was either Houston or Glass. I do not recall which one.

I stated when I was before the committee the other day that Mr. Meyer was a professional office seeker. I call your attention to the fact that Mr. Meyer contributed $25,000 to the Republican National Committee in 1928, in the Hoover campaign, $5,000 as a resident of Washington and $20,000 as of 14 Wall Street, where his offices had been located for many years——

Senator BROOKHART. I have a list showing most of these other Wall Streeters contributed a great deal to the Republican campaign fund.

Representative McFADDEN. Here is a quotation from the New York World of April 28, 1918, page 12, column 6, headed Ticker Talk:

In connection with the purchase of the remainder of the treasury bonds of the Chile Copper Co.——

Senator GOLDSBOROUGH. Bernard Baruch did not give anything to that fund, did he?

Senator BROOKHART. I do not know whether he contributed to both of them or not. Most of them do, to get in on both sides.

Representative McFADDEN. This article in the New York World of April 28 is of particular interest. It says:

In connection with the purchase of the remainder of the treasury bonds of the Chile Copper Co., amounting to $1,500,000 of the par value of the bonds, Eugene Meyer, jr., & Co. and B. M. Baruch have purchased from Daniel Guggenheim and associates 150,000 shares of Chile Copper Co. stock, all of which has already been placed.

Mr. Meyer at one time, I am told, had joint offices in New York with Mr. Baruch. Mr. Meyer still has, I understand—at least, he did have two years ago—offices at 14 Wall Street, New York, where he carried on in his own personal name the Government bond operations for the United States Treasury, with the name of the War Finance Corporation on the door.

Why, Senators, how long would you permit the present able Secretary of the Treasury to carry on the purchase and sale of Government bonds for the bond purchase and sinking-fund operations of the United States Treasury in his private office in Wall Street, in his own personal name, even though he did donate the rent and have the name "Treasury Department" on the door? I venture to say to you, he would not do such a thing, nor would you permit it.

As disclosing further operations of Mr. Meyer during this particular period of his activities in the stock market in New York, the New York World of November 24, 1904, discloses:

No city bonds for small bidders; issue of $25,000,000 goes to syndicates at premium of 102.4.

When the bids for $25,000,000 of 3½ per cent New York City bonds were opened yesterday by Comptroller Grout it was found that banks and syndicates had offered a price beyond the bids of the citizens who had been invited to invest in $10 lots. The loan was oversubscribed eight times, at an average price of 102.4.

Exactly eight private citizens got small lots of the bonds. Nearly $24,000,000 was awarded to William Salomon & Co. and Lazard Freres, conjointly at 102.401, and $750,000 went to Eugene Meyer & Co. There were 167 bidders, and the issue was divided among 18 of them.

Among this list of bidders I notice that the Meyer name appears; also William Salomon & Co. and Lazard Freres, $23,837,750.

It was said in Wall Street after the sale that Kuhn, Loeb & Co. and the National City Bank had arranged with Lazard Freres to take over the $23,800,000 allotment and divide it between them.

Now, to point out to you some of the further activities of Mr. Warburg, I want to mention the American I. G.

This is the so-called American branch of the great German chemical trust, otherwise known as the Farben Industrie and commonly called the I. G.

The American I. G. came into being in 1929. Bonds to the amount of $30,000,000 were distributed for this company late in the spring of 1929. These bonds were unsecured by mortgage. At that time, so far as we know, the company had no real estate in this country. The purpose of the issue was to buy up American companies, dealing in chemical and allied lines, including medicines, and to foster and finance, and so forth. A queer purpose.

The placing of these bonds on the New York Stock Exchange was denounced and charges were made to the authorities, but so far nothing has come of the complaint. Joseph Choate, attorney for the

American Chemical Foundation, has the facts at his command and will tell you about it. See New York Times January 29, 1930.

Paul M. Warburg is a director of this company. I believe he is one of the incorporators, and that he participated in the distribution of the bonds.

I will place in the record some further statements with regard to this company, including the quotations for its stock.

(The matter referred to is as follows:)

THE GERMAN CHEMICAL TRUST, COMMONLY KNOWN AS THE I. G.

TRUSTS CREATED TO SAVE INDUSTRY

Applied individually by various separate manufacturing enterprises, however, even these radical reforms proved insufficient to meet the stern requirements of the financial situation. The industrial overlords, under their bankers' lash, soon saw that, to escape the catastrophe that had befallen Hugo Stinnes's sons and heirs, they would have to get together and regulate both production and prices.

Thus there came into being such mighty conglomerations of industrial productivity as Vereinigte Stahlwerke A. G., commonly called the Rhur Steel Trust; I. G. Farbenindustrie, its equivalent in the field of dyes and other synthetic chemical products; and the Potash Syndicate, a sales organization embracing all German potash mines. In the electrical industry the A. G. E. (General Electric Co.) and Siemens & Halske, both of which had working arrangements with American interests—the former with the American General Electric Co. and the latter with the Westinghouse Co.—virtually formed an electrical trust.

In the machinery, textile, and other lesser industries similar amalgamations of capital took place. Official estimates placed the total number of German cartels in 1925 at some 3,000 of which 2,500 were industrial and the remainder commercial.

From the international standpoint, Vereinigte Stahlwerke (United Steel Works), with a capital of more than 1,000,000,000 marks, was the most important at the start, for its creation paved the way for the coming of the European Steel and Iron Cartel that esablished a rational partnership between Lorraine ore beds and Ruhr collieries.

Framed after the model of the United States Steel Corporation, this huge concern was founded in January, 1926. It comprised seven of the most important steel companies in the Ruhr and Rhineland, including the powerful Deutsch-Luxemburg, Thyssen, and Phoenix groups. In its first year Vereinigte Stahlwerke produced 7,400,000 tons out of the total of 15,800,000 tons of raw steel produced in Germany, or 46.8 per cent of that total. It also mined 22 per cent of the total coal production and close to one-half of the iron production.

The influence of the Ruhr trust on international steel relations has been far reaching. It is through its efforts chiefly that the steel and iron production of most of the Continent has been aligned on a common front ostensibly directed against nobody in particular, but obviously theratening to the British and American steel industries.

INTERNATIONAL STEEL COMBINE ASSESSES PENALTIES FOR OVERPRODUCTION

Germany, with her Vereinigte Stahlwerke, provides the lion's share of the European steel cartel's annual output, 43 per cent. The Germans were most active in organizing this cartel, which came into existence in September, 1926, with France, Belgium, and Luxemburg as its other members. Primarily it is an organization for the international control of steel production. Representatives of the member States, which now also include Czechoslovakia, Austria, and Hungary, and which may shortly be joined by Poland, meet every three months to fix the total production for the ensuing three months.

Originally the first productive quotas were fixed on the basis of each member State's in the first quarter of 1926. The national industry of each member State obligates itself to limit its output to the quota assigned it. Each nation whose product exceeded its quota originally contributed $4 to the cartel's common fund for every excess ton of steel produced. Any nation whose production fell below its quota received from this fund $2 a ton. This scale is modified from time to time. The cartel's quarterly output now aggregates about 30,000,000 tons.

It is interesting to note that Germany thus far has consistently produced more steel than the quota assigned to her by the cartel.

The cartel exercises no control over prices, either domestic or foreign. Thus competition in the export market exists normally among its member nations.

### MORE THAN 20 TRUSTS NOW OPERATING INTERNATIONALLY

The other mutual benefit organizations internationally uniting the European industry in general follow the principles of the steel cartel. There are more than 20 such trusts in official existence to-day.

They cover the following trades: Raw steel, steel rails, tubes, roll wire, rayon (artificial silk), chemicals, potash, linoleum, borax, white lead, quinine, calcium carbonate, zinc, ferromanganese, tanning extracts, activated carbon, aluminum, enameled wares, glue, plate glass, bottles, superphosphate, incandescent lamps, and copper. Germany belongs to all of them with the exception of plate glass and copper trusts. Incidentally, the former and the bottle cartel are the only ones that were founded before the war.

France is a member of most of them, but Great Britain of only seven of the lesser ones. The United States thus far has joined only the copper and incandescent-lamp organizations.

Like the British, American industry has held aloof from the more powerful cartels such as steel and chemicals. The former of these two offers the most direct competitive danger both to Britain and to America.

As regards the chemical cartel, the backbone of which is the formidable I. G. Farbenindustrie, or German Dye Trust, there have been numerous negotiations between the Germans and Imperial Chemical Industries (Ltd.), the foremost British concern in that trade; but thus far they have been inconclusive.

### GERMAN AND FRENCH CHEMICAL INDUSTRIES COMBINE

American policy, at least as interpreted by European observers, appears to consist of establishing contacts with individual members of the cartels while holding aloof from membership in them.

Prior to the war Germany was in virtual control of the world's dyestuff markets. But during the war dye industries were built up by other great powers, including the United States and Great Britain. The consequence of this was that Germany's exports of this product dwindled dangerously. The total export of aniline dyes, for instance, dropped from 64,000 tons in 1913 to 17,000 in 1925.

In that year German dye manufacturers saw the rocks looming ahead. They lost no time in organizing a united national defense against the economic catastrophe confronting them.

Under the leadership of the former Badische Anilin-und-Soda-Fabrik, whose poison-gas plant at Ludwigshafen was the objective of so many Allied air raids in the World War, and of the equally prominent Friedrich Bayer Co., international known as the maker of aspirin, a merger of the eight foremost chemical concerns was carired through and the German Dye Trust, capitalized at 1,000,000 marks, came into being.

In the year after its formation Germany exported 21,000 tons of aniline dyes, and in the first 11 months of 1927 26,000 tons. During the latter year negotiations were begun in Paris for the organization of the International Chemicals Cartel.

In 1927, the signing of a Franco-Germany dyestuffs entente as the basis of a billion-dollar European cartel was reported.

Since the value of American chemical exports is almost $200,000,000 per annum, the menace of a pan-European combine can readily be perceived.

[The Saturday Evening Post, November 1, 1930]

THE GERMAN CHEMICAL TRUST

The limitations of space prevent any detailed account of German industry. One significant advance this year must be emphasized, however. It is the working partnership between the North German Lloyd and the Hamburg-American lines. The pact, which at the start is a comprehensive pooling agreement, is on a strict parity basis and runs for 50 years. Each concern gets half of the profits. The arrangement will end the costly rivalry between the two leading German shipping companies and will make for reduction of overhead in the shape of single offices everywhere.

Two final details have a distinct bearing on American exports. The first grows out of the continued expansion of the German Dye Trust, the vast corporation called "I. G." for short, whose production in 1929 amounted to the equivalent of $1,000,000,000. No phase of its work is more significant than the progress made in the manufacture of synthetic gasoline. From 100 tons a day the output has grown to more than 300 tons. The process has long since reached the commercial stage. You can see tank wagons hauling the synthetic gasoline on the streets of Berlin and other cities. Though the price is not yet lower than that of gasoline made from real crude petroleum, it is giving Germany an increasing independence of American juice.

Now, Senators, I want you to recall Mr. Meyer's statement to you last week concerning his resignation from the War Finance Corporation on May 31, 1920.

It will be remembered that the Victory Loan was being raised in the last months of the war. The armistice came somewhat unexpectedly, and the billions raised in the Victory Loan were utilized as a postarmistice loan to the Allies, supplementing the war loans previously made to them. This vast postarmistice credit temporarily supported their financial structures, and their exchanges did not begin to fall until the latter part of 1919. Their credits from America then became exhausted, and their growing adverse trade balance would have to be settled in the normal way by the shipment of gold unless new credits were received from America.

Such new credits were not made. The Allied Governments continued to maintain embargoes on the exportation of gold. Therefore, through most of 1920, the adverse trade balance resulting from their importations from the United States grew by leaps and bounds and by the middle of 1920 nearly reached the enormous figure of $5,000,000,000. American exporters and manufacturers could not have continued their exportations without bank credit here. The banks continued to extend more and more credit and the Government increased the inflation through the operations of the War Finance Corporation. In 1920 we were on the high road to national ruin if the $5,000,000,000 trade balance were not settled in gold.

There is no reason why in 1920, or even in 1919, high Government officials should have been misled about the situation. We possessed, in the middle of 1920, less than $2,000,000,000 in gold. The Treasury knew that the world's gold stock was seven or eight billion dollars at least. Europe owed but little gold to South America or Asia, because its pre-war credits there were more than sufficient to meet these debts. No gold shipments from Europe had been made during the war. The Allied States, after the armistice, acquired the gold stocks of the Central Empires. They were amply able to pay their post-war trade balance to America in gold. It was imperative, if the American people were not to be ruined, that this gold be shipped.

But those who dominated financial policies in the United States denied all these facts and were able to influence Government policy throughout 1919 to enter upon the unlimited and ruinous extensions of credit to finance exports to Europe regardless of its effect upon our credit structure. In the same breath in which they advocated continued inflation of American credit, they declared that Europe could not pay in gold.

In a speech which Mr. Meyer delivered he said that Europe could not pay in gold, and he advocated that we take notes and extend further credits to Germany. That is the basis of his resignation which he stated to you the other day.

Yet it is obvious that if in 1920 the policy of credit inflation were to be continued with no expectation of settlement of the foreign trade debts in gold, the gold value of the American dollar would be wholly destroyed. The unit of measurement for determining the amount of foreign debts to the United States would no longer exist. European indebtedness to the United States could virtually be wiped out.

There probably has never been a period in history in which confusion of thought was so complete as in the two years following the armistice. This was due to the rapidity and magnitude of the happenings and was enormously increased by the misrepresentation of facts by those who were responsible for the treaty of Versailles. This misrepresentation of facts completely deceived public opinion in America, but there is no reason why it should have deceived the responsible officials of Government. They were deceived throughout 1919 but awoke in the nick of time in 1920.

The financial fallacies which were preached throughout 1919 stampeded the American business world into a strenuous campaign of production for export. Everybody who was producing for export expected to be paid in due course.

The vague optimism of the financial leadership which marshaled the industrial forces of the country into action at the beginning of 1919 can not be better illustrated than in the address which Mr. Eugene Meyer, jr., made to the National Council of Foreign Trade at Chicago on April 24, 1919.

The substance of this address was as follows:

> If the war has taught us anything, it is the conviction that our country's welfare is inextricably bound up with the welfare of the last and least of the other peoples; that both politically and economically we are no longer the detached unit we formerly thought ourselves, but an important power in the constantly interacting forces of the life of the nations.
>
> I urge economic liberalism not from the sentimental point of view but from the point of view of self-interest.
>
> America as the world creditor, instead of the debter Nation of before the war, must fill a new and broader rôle in future economic developments.
>
> Events have thrust leadership upon us. We must meet our enlarged responsibilities toward our fellow nations and toward ourselves.
>
> England is depleted and stagnant, as are the other continental nations.
>
> What, then, are the methods of resuming trade relations They can not exchange goods and services. Our former international business associates have used their resources so freely during the long struggle that they now temporarily lack the means to pay in the ordinary way. With their tremendous obligations, and with their depleted reserves, they can spare no gold in exchange for goods which we might sell.

That is the basis of the reasons for the resignation of Mr. Meyer in 1920.

Senator GOLDSBOROUGH. May I ask a question? Did I understand you to say that the article written in the Yale Review by Mr. Meyer was in 1909?

Mr. McFADDEN. Yes.

Senator GOLDSBOROUGH. He spoke of the panic of 1907, but the article was written in 1909.

Mr. McFADDEN. Yes; about the same distance away from that panic as we are at this time from the 1929 panic. To quote him further:

The indebtedness they held against us in 1914 has been liquidated by the sale of their holdings of our securities as part of the purchase price for the munitions and materials we supplied before we came into the war. Great debts have been piled up with our Government by England, France, and Italy. Their industries are still very far from being restored to the pre-war condition of production that would enable them to pay us in goods.

It is to our advantage promptly to restore our export trade in the lines of war materials and manufactured goods. I believe it is to their advantage to acquire these materials except such as may be classed strictly as luxuries, so that they may restore their plants, equip their transportation systems, and obtain our raw materials which their industries need for domestic consumption and for export.

Mutual interest determines the right policy. From our point of view it is in our interest to market our products and to restore the commercial standing and prosperity of our customers. It is in their interest to restore their normal economic operations and their employment of labor.

I wonder what position we would be in at this time if we had followed Mr. Meyer's advice and shipped eight or ten billion dollars' worth of goods over there. They have not paid us anything on that old debt, except that which they have borrowed from us, and they have borrowed in excess of what they have paid.

I will not bother you Senators to read the balance of this, but it is all very interesting, and I direct your attention to the balance of it.

(The balance of the matter referred to is as follows:)

Obviously, it is in our interest to sell and theirs to buy, and if they are unable to pay in the ordinary way, unusual and extraordinary methods must be devised to suit the emergency.

With this in mind the Treasury Department asked and Congress passed an amendment to the War Finance Corporation act whereby the Corporation is authorized to lend \$1,000,000,000 to American exporters to enable them to sell American goods abroad on long-term credits or to bankers financing such exporters.

The possible application of the funds can easily be seen to lie along a few well-defined lines, large enough credits to give the foreign nations time to restore their productive organization and to renew their normal selling connections. This may take one year or it may take several * * *

Obviously the goods which can be purchased and paid for in the ordinary way within a year will be small compared with the needs of the situation. Later on there will be the transfer of large holdings of securities to our investment market.

These transfers of securities may be either in the form of European holdings of investments in neutral countries or in the flotation on our investment market of large foreign industrial issues or national loans. The old-established and well-known financial trust of England and Scotland is a form of organization that may prove useful in marketing securities. * * *

The power to loan to promote trade has not yet been used to any extent. At first the European countries felt that rigid economy rather than borrowing should be their principle, but later they are beginning to take a different view, and I believe the necessary mechanism will be devised to make operative this governmental aid. * * *

The amendment by Congress has served to stimulate the consideration of the necessary credit mechanism on the part of private interests. It will stimulate our merchants and bankers to greater courage and prompter action in offering credits to foreigners. * * *

I hope that every facility that has been proved suited to the conditions may be provided by private enterprise, but if these methods can not be made effective the War Finance Corporation stands ready to support any plan that it considers sound and within the provisions of the act. * * *

Specially trained men are needed. * * * We must create specially trained organizations which look to the future. The great trading countries of Europe had institutions and had people with a record of years of gradual development and training to equip them for their tasks. Our problems have been thrust upon us in an instant. With a few exceptions our bankers may be described as national and not international. The foreign languages are known to only a few. Knowledge of the various countries, of their methods of industry and finance, is now necessary for the direction of our industry and finance, but at present our knowledge is theoretical rather than practical when it exists at all. It behooves us then to give immediate attention to the training of men who will be able to carry on this economic leadership. We must study the economic structure and social conditions of other countries. Without such knowledge we shall not be able to act effectively.

The present crisis finds us with an economic organization in which the highest rank is "captain of industry," and we need promptly to proceed to the training of majors, colonels, and generals of industry and finance, and a general staff capable of conceiving large policies and directing great operations in the spirit of world economics.

Senator BROOKHART. I do not understand yet why that became the basis of his resignation.

Mr. McFADDEN. I will make that clear to you in a moment.

This estimate of international relationships dominated policy throughout 1919. The inevitable crisis culminated in 1920. Stagnation set in in the United States, and the banking and currency structure was tottering. The Government reversed its policy and began restricting credit.

When exportation to Europe suddenly ceased, the unsatiated demand of the European population for American goods was so great that the European Governments were forced to consent to the export of gold in payment in order that importations might begin again.

I want to say here that great credit is due Senator Carter Glass. Senator Carter Glass was in opposition to the views of Mr. Meyer at that time, and he went as far as he could go to notify Europe that they had got to begin to pay, and it was as a result of his edict conveyed to them that $2,000,000,000 worth of gold came into this country. I think that answers your question.

Mr. MEYER. I would like to correct the chairman of the committee on that. It was Secretary Houston who was Secretary of the Treasury, and not Senator Glass.

Mr. McFADDEN. Secretary Houston will be given the credit, then.

Mr. MEYER. Senator Glass resigned early in 1920.

Mr. McFADDEN. The gold importations into the United States during the next two years saved the American banking structure and the integrity of the American dollar and permitted industrial recovery.

When the Government adopted the new policy in 1920, Mr. Meyer was director of the War Finance Corporation. He strenuously opposed any change from the policy of 1919. So determined was his opposition that he refused to cooperate in the new policy, and, as I have said, resigned.

Senator BROOKHART. That is different from the reason he gave us for his resignation.

Mr. McFADDEN. Mr. Meyer, in his testimony, I will say to you, Senator, has opened up a line of questioning which is well worth following up. It is connected with these statements which he made then before your committee.

He said that differences with the Wilson administration over the policy of stimulating European credit led to his resignation as managing director of the War Finance Corporation in 1920.

He said that he had wished to continue the practice of making loans to American bankers and exporters in order to give credit to foreign interests, because he feared a collapse of prices, due to a drop in foreign exchange, and that the Treasury disagreed.

"Most people on Capitol Hill," he said, "thought the danger was inflation, but I thought the danger was a fall in prices as a result of the drop in European buying, and I resigned. In the autumn the fears I had of a collapse were rapidly realized. Foreign exchange dropped."

When Congress attempted to check the inflationary tendency in 1920, he disagreed because he had "a profound conviction that we were facing a collapse in prices and that inflation was short lived."

As stated here, there was no reason why men in a position to know the facts, as Mr. Meyer was, should have been deceived about the conditions and about the forces that were at work. In the continuation of the policy of 1919 the United States was facing the destruction of its entire monetary wealth. The above statement shows that Mr. Meyer was wholly and completely identified with this policy in 1920.

The significance of the fact should not be overlooked that since 1920 Mr. Meyer has not changed his views. Although 10 years have passed, a period of time permitting ample reflection, his testimony on January 28, 1931, indicates the same state of mind to-day.

Just at this period of 1920, about which he was talking to you, many people were beginning to wonder why the international financiers were urging, and stimulating others to urge, America financial and economic unity with bankrupt Europe. The answer to this in the language of that day, which still holds good, was that financial and economic unity meant America's absolute partnership, with all she had and all she was, with bankrupt Europe. It involved the pooling, not merely of America's credit but of all America's land, food, wares, and merchandise, with bankrupt Europe. And this pooling, or financial and economic communism, was to be under bankrupt Europe's and Asia's majority control. Suppose all the war bonds of bankrupt Europe had been canceled, the debt they represented would remain, and America would be severally liable for that just as she would have been severally liable for all of the European legal tender war paper money, all of which the United States would have been bound to have stabilized had she gone into partnership with bankrupt Europe. This is the situation that Mr. Meyer told you the other day is the reason why he differed with the policy of the Secretary of the Treasury who by an order forbade further loans to Europe, directly or indirectly, and issued the ultimatum that Europe should pay their trade balances to the United States.

It is interesting to note also the comments of Mr. Paul Warburg on this situation.

Mr. Paul Warburg and other international financiers were entirely in accord with Mr. Meyer's views at that time. It is interesting to note, however, that he succumbed to the inevitable, which is indicated by the comment he made in December, 1920, upon the action of the Government which he then indorsed. Mr. Warburg said in an article in the Political Science Quarterly, in 1920:

We all know the cruel sufferings and the social unrest that follow in the wake of a prolonged, unreasonable, and unhealthy increase of prices. For six years the consumer has been trying in vain to catch up with the rising cost of living, while the producer and trader have had their innings.

We have now entered upon a period when the producer and trader will have to try to catch up with falling prices, and when the consumer, particularly the person with small fixed income, will come back more nearly into his own.

As the rise was painful, so must be the fall. To have been the first to arrest this crazy and destructive rise in prices before it took still graver forms was a real contribution on the part of the United States, for which the world owes us a debt of gratitude, even though our farmers and producers may find it hard to reconcile themselves to that view.

I think we are most fortunate at this time in having a Secretary of the Treasury and a governor of the Federal Reserve Board who are courageous and conscientious enough to disregard the political point of view and to hold to the course that clearly is best for the country, even though it may be unpopular and subject them to bitter and unfair attacks.

While Mr. Meyer went quite into detail in his voluntary statement to the committee as regards his attitude of mind in this particular situation, explaining how he differed with the Treasury policy to the extent that he resigned, his memory, day before yesterday, when he was asked pertinent questions, the correct answers of which would have been at variance with his statement, he was evasive. I refer to Senator Brookhart's question, as follows:

Senator BROOKHART. There are a few general questions on international matters, before I take up the matter of the remedy of this situation.

How much money did Europe owe the United States on trade balances in 1920?

Mr. MEYER. Senator, you do not want me to walk around with those figures in my head, do you?

Senator BROOKHART. I thought probably you would know that big figure.

Mr. MEYER. I could not tell you offhand how much it was. How much did they owe on trade balances?

Senator BROOHART. You kept track of the trade balances, did you not, all the time?

Mr. MEYER. I used to, and whenever I want to know, I look it up; but I can not give you the balance of trade for years back. I feel very highly flattered at your asking me.

Senator BROOKHART. I did not mean to hold you to any absolutely accurate statement.

Mr. MEYER. I have no idea what it was, Senator, in 1920.

Senator BROOKHART. Was Europe in a position to pay that?

Mr. MEYER. The Bureau of Foreign and Domestic Commerce publishes figures on that point. Of course, there are many other items in the balance besides the merchandise trade balance.

Senator BROOKHART. Was Europe in position to pay this balance in gold?

Mr. MEYER. In 1920?

Senator BROOKHART. Yes.

Mr. MEYER. I do not know what the balance was, so I can not discuss it.

Senator BROOKHART. You know the general situation with reference to gold, do you not?

Mr. MEYER. Yes; but I can not talk about the ability to pay an amount that I do not know.

Senator BROOKHART. Should it have been the policy of the Government to demand that this trade balance be settled in gold?

Mr. MEYER. Our Government does not settle trade balances in gold. The Government does not control the settlement of trade balances. I will put it that way.

Senator BROOKHART. So they should say nothing about it?

Mr. MEYER. They can not do very much about something that they do not have any control over.

Senator BROOKHART. The Federal reserve system has something to do with that. What about it?

Mr. MEYER. The Federal reserve system settles merchandise trade balances?

Senator BROOKHART. It might. Doesn't it handle some of those things? Should it require the payment in gold?

Mr. MEYER. Everybody who owes money to the United States—I mean by that, the merchants and business men and farmers, indirectly—has to pay in United States money ultimately, and that is the equivalent of gold. Would you want a cotton farmer to take his money in marks or lira? What would he do with it? He would have to sell it and turn it into dollars.

I do not think that kind of testimony before your committee, on a pertinent question like that, needs any further reference by me when taken into consideration with the statement of the reasons heretofore set forth by Mr. Meyer to your committee. It is absolutely evasive.

What policies will Mr. Meyer put into operation if he is confirmed as governor of the Federal Reserve Board in 1931?

If attention be given to what was happening both in the United States and in Europe in 1920, it will be seen that Mr. Meyer was advocating a policy which would have been permanently ruinous for the United States. He wished to continue the practice of making loans to American bankers and exporters in order to give credit to foreign interests. He would have taken this means to prevent a drop in the foreign exchanges.

But in 1920 the only salvation for the United States was a drop in the European exchanges resulting from a settlement of their adverse trade balance to us. The enormous industrial activity in the United States in 1919 and the first part of 1920 went into the production of goods and commodities for export to Europe. The unpaid trade balance in the middle of 1920 was nearly $5,000,000,000. During that year and a half, nothing had been paid for. Our entire banking structure, if it were to continue to be related to gold, was hopelessly ruined unless that trade balance were paid.

An important incident like that must have been known to Mr. Meyer, and certainly, if he remembered all the details of these other things, he should have been able to tell Mr. Brookhart what that trade balance was at that time.

The United States Treasury and the Federal Reserve Board acted in time. They began withholding credit from industries exporting to Europe. The public speeches of Governor Harding of the Federal Reserve Board at that time will show this.

He made a statement before our committee in the House, reaffirming his position at that time. Probably no statement Governor Harding has made has had so many favorable and unfavorable comments and criticisms as that particular speech.

The evidence all indicates that the United States Government had for months been urging the European governments to lift their embargoes on the shipment of gold and that they had refused. It was widely stated that they did not have the gold to ship. A financial congress was called to meet at Brussels in September, 1920, at which the presence of the United States was urged, to effect some means of settlement of international debts without the shipment of gold.

It was at this point that the then Secretary of the Treasury acted, and acted very wisely.

The United States Government refused to attend. Roland W. Boyden in a roundabout way was directed to inform that congress at Brussels that if Europe wanted more goods from America, Europe would have to settle its trade balance in gold.

As a result of Government policy, exportation to Europe on credit was brought to a sudden end in 1920. The European populations felt a compelling necessity for more importations from America, and in order to have exportation from America resumed, the governments had to lift their embargoes on gold exportation.

Europe did have the gold. Beginning with the autumn of 1920, it poured into the United States in an unprecedented continuous flow for two years. It came just in time to save the American people from ruin. The hard times lasted only through 1921. The receipt of two billions in gold saved the Federal reserve system and the banks of the country, and brought the postwar wealth which the country enjoys to-day.

This is a statement of economic phenomena only. It is only a part of the picture of 1920. Economic forces were being artificially controlled by political forces. The political settlements of the war had been made in the treaty of Versailles which had created a financial obligation on the part of Germany to pay the Allies $33,000,000,000. It was out of this asset of 33,000,000,000 imaginary dollars that they contemplated paying their obligations to America, including their unpaid postwar trade balance.

If European politics could have been staved off the American demand in 1920 that the unpaid trade balance be settled in gold until financial collapse had come to the American banking system, they might then have succeeded in forcing the war settlement upon America which the treaty of Versailles contemplated, and could have permanently retained the $2,000,000,000 and more of gold which remained in Europe after the war.

Mr. Meyer has testified that in 1920 he differed so radically from the policy of the United States Treasury and the Federal reserve system that he resigned his position. If the Government had followed his leadership at that time, the European policies in their fullness would have prevailed and the United States would never have attained the economic power which it now possesses.

Mr. Meyer also stated to your committee the other day that he had no opinion on the subject of branch banking. He did not hesitate to express his favorable opinion of branch banking a few years ago when he appeared before the House Committee on Banking and Currency over which I presided as chairman, at which time he offered as a solution of the stressed banking situation in the Southern, Middle, and Western States, branch banking in county-wide form, suggested that the county seat bank should be a member of the Federal reserve system and it didn't matter whether the other banks of the county were members or not—they would have access to the Federal reserve system through the county seat bank.

This is somewhat along the line of the plan that is now advocated by the Comptroller of the Currency Pole, in his proposal of trade-area banking.

This was clearly an indication that Mr. Meyer was in favor of a centralized banking system. His opinion and his future action on the subject of centralized, unit, or branch banking are now of the greatest importance.

Banking in the United States at the present time is in an undetermined situation. We are in the midst of a conflict, the basic elements of which are whether we shall have a centralized banking system dominated and controlled by one or two groups in the city of New York, or whether we shall have an independent banking system. Both banking committees of the House and Senate are engaged now in a study of this situation. The factions are at the present time glaring at each other and struggling for a determination.

The larger city banks, principally in New York, have their friendly contacts with, if not control of, many of the larger banks in the larger cities, and we are witnessing now the building up of trade-area groups of banks in which we are beginning to notice a stockholding ownership by some of these larger groups in New York which will eventually mean beyond all question of a doubt that these trade-area groups will be controlled from one or two sources in New York.

In confirmation of that, I again invite your attention to the fact that the Marine-Midland group is just one of those groups. That is trade-area banking. It has its main office in Buffalo, N. Y., and its territory comprises the seven northwestern counties of Pennsylvania and the State of New York. In taking over the Fidelity Trust Co. in the city of New York, they have a clearing house member bank, and it presents in this respect a little different situation than probably any of the other groups.

I might cite also that the organization of the Mell-Bank Corporation in Pittsburgh is another establishment of trade-area banking in Pittsburgh. In Minneapolis we have two of these chains or groups. We have one in Milwaukee. We have them on the Pacific coast. We have the trans-America group on the Pacific coast with its New York connections, and we have the Caldwell group in Tennessee.

Senator BROOKHART. It has blown up, has it not?

Mr. McFADDEN. Yes; it has blown up. In that blow up there are probably some observations which would be beneficial to Congress if they should go into it, because the disclosures which have come about since the failure of the Caldwell group indicate a monopolistic control over banking, finance, insurance, newspapers, the governor, and both branches of the legislature.

As a great aid to this centralization of banking assets which is taking place, we have witnessed the weakening of the independent banks of the country through the various processes of deflation which have been taking place over a period of the past 10 years.

This comes about through readjustments since 1920, the development of mass production, consolidation, mergers, and construction of industrial plants and railroads. The larger the units the more accessible is the credit of the Federal reserve system and less is the credit of the Federal reserve system to the individual or small operator in any line whatsoever he undertakes, all of which tends to the creation of classes of master and servant in this country, a case of the survival of the fittest.

The spirit of craftsmanship has already passed out and been superseded by mass production. There is nothing to stimulate individual initiative in any new line. All of this has resulted in the vast unemployment situation which we are now witnessing. In addition to this, we are in the midst of a similar situation so far as banking is concerned in our international relationships. In this respect, the Bank for International Settlements at Basle, Switzerland, has been organized.

There is a very interesting situation in regard to——

Senator BROOKHART. Who owns the stock in that bank?

Mr. McFADDEN. Mr. Mellon, the Secretary of the Treasury, when he was before the House Banking and Currency Committee last summer, when we were holding hearings in regard to the sale of German reparation bonds in this country, stated that the stock in this bank was privately held. So far as my information goes, the stock was taken by the group headed by J. P. Morgan & Co. and the First National Banks of New York and Chicago. I presume the list of bankers I have inserted here in the record as being the sponsors of the sale of the $100,000,000 part of the commercialized German reparation loan that was floated here last year, are the stockholders. I do not know definitely, nor have I been able to find out, who the stockholders are.

In that connection, I want to call to the attention of this committee—because it has a serious bearing on the very matters that are now before you—the fact that the Department of State assumed an attitude in regard to this, quite unexpectedly. Those who have been watching the situation, as I had, and some others, because of matters that had come before our committee in connection with the various hearings and studies we had made of the Federal reserve system and its operations, had observed, since the close of the war, a tendency to involve the Federal reserve system in these international financial affairs, to the extent that conferences were taking place between the governor of the Federal Reserve Bank of New York and the heads of the central banks of the various major countries of the world, which finally culminated in the setting up of a loan of $200,000,000 or gold credit to the Bank of England. Simultaneously with that was the loan granted by J. P. Morgan & Co. to England of $100,000,000, negotiations for which were conducted, as was shown by the hearings before our committee, by J. P. Morgan & Co. Since that occurrence, members of our committee have been actively interested in observing the further contacts which the Federal reserve was making. Some of us felt at that time that the Federal Reserve Bank of New York, in negotiating and carrying through these negotiations with these banks, had exceeded their rights under the law. We found, however, that that permission had been given as interpreted by clever lawyers as being given them in section 14, I think it is, of the Federal reserve act. And it was under this interpretation that they acted. Of course, you Senators who were here during the formation of that act, I know full well, did not expect that hidden in that particular section was authority to grant loans of the sacred reserves of the Federal reserve banks to foreign banks or countries. This particular loan to the Bank of England was guaranteed by an act of Parliament, and was the obligation of the British Government.

I am not questioning whether or not a loan should have been made, but I am questioning the usurpation of authority, or the interpretation of the Federal reserve act in assuming to loan abroad the gold reserves of the member banks. It is true that the 12 Federal reserve banks were consulted, and were a part of this group, but the banks who are the member banks themselves were never asked whether their reserves should be loaned to Great Britain or not Since that time, these relationships have been growing closer and closer, and at the time of the adoption of the Young plan, which was later put into operation, the committee in charge of that was J. P. Morgan, Thomas N. Perkins, Thomas W. Lamont, and Owen D. Young. In that plan that was formulated as the Young plan was the outline for the Bank of International Settlements, and when the Young plan went into operation the Bank of International Settlements was established. As an organizing committee, there went over from the United States Mr. Jackson Reynolds, president of the First National Bank of New York, and Mr. Melvin A. Traylor, of the First National Bank of Chicago, banks closely affiliated with the American group and a part of the underwriting syndicate who drew up the rules and by-laws for the operation of this bank.

Just when these announcements were being made, everybody here who knew anything about it—although it was carried on quite under cover by the Federal Reserve Bank of New York and its officers—knew that this plan had largely grown up in the Federal Reserve Bank of New York, and was patterned somewhat along the lines, so far as mobilization is concerned, of the gold settlement fund of the Federal reserve system.

Collaborating with Mr. Young in the formulation of that plan was Dr. Randolph Burgess, deputy governor of the Federal Reserve Bank of New York. He is the economist of the bank, and has been with it for a good many years. He was with Mr. Young in Paris at these various sessions, and it was generally known and expected that this was a Federal reserve move.

It was a very interesting period about that time, and it was very difficult to get any information from anybody pertaining to it.

Senator CAREY. Mr. McFadden, I do not want to interrupt you, but are we not getting a little beyond Mr. Meyer in this matter here?

Mr. McFADDEN. I think we are not, Senator.

Senator CAREY. What is the connection here?

Mr. McFADDEN. As governor of the Federal Reserve Board he is going to have a very vital connection with this, which is very material.

Senator CAREY. You said something about the State Department.

Senator BROOKHART. Senator Glass has claimed that the State Department was exceeding its authority in putting its O. K. on these foreign loans.

Mr. McFADDEN. I was going to read that order of the State Department. It has a very material bearing on Mr. Meyer's fitness to be governor.

Senator CAREY. Make it as brief as you can.

Mr. McFADDEN. I do not want to take up an undue amount of time of the Senators here, but this is an important matter.

Senator CAREY. I know it is important, but I just can not quite get the connection with Mr. Meyer.

Mr. McFADDEN. The connection with Mr. Meyer will be that he will have a large part of the determination, as governor of the Federal Reserve Board, as to these international transactions in which the Federal reserve is involved.

Senator CAREY. But you do not know that he has done any of that.

Mr. McFADDEN. Not as yet.

Senator CAREY. I do not see where anything he has done in the past ties in here.

Mr. McFADDEN. I think it has a very material bearing. I have shown Mr. Meyer's international observations and connections and his attitude when he was in operation here, in the War Finance Corporation. I have shown these close relationships, which all have a bearing on this thing, Senator. It is a very difficult thing to put this down in black and white, but if you had been observing the operations of the Federal reserve system with these various interests to which I have referred, during the 16 years I have been here and the 11 years as chairman of the Banking and Currency Committee of the House, you would see a very determined connection.

Senator FLETCHER. The Bank of International Settlements has its headquarters where?

Mr. McFADDEN. In Basel, Switzerland, and it is exempted from all——

Senator FLETCHER. Who represents it over here, if anybody? Is there any agency?

Mr. McFADDEN. I do not know exactly—of course J. P. Morgan's group—but I suppose the Federal reserve itself does business with them, as it does with other central banks of issue. At least I have been told that is the case.

This complication as regards the Federal reserve system at this time with this Bank of International Settlements, is important in this connection. This Bank of International Settlements, I might point out, is a bank controlled by the central banks of issue of the major countries of the world, with the exception of the United States. Here the representation is by and through J. P. Morgan & Co., a private banking house conducting international business, and its operations can not be carried on without affecting the operations and the policies of the Federal reserve system. That is the reason I am talking about this thing, Senator.

Senator CAREY. Do you hold that an American bank should not have anything to do with foreign securities?

Mr. McFADDEN. I am not suggesting that, Senator.

Senator CAREY. Or a member bank of the Federal reserve system?

Mr. McFADDEN. I am suggesting that we should have an American independent financial system here.

Senator CAREY. I do not see why a bank should be denied the right to do a foreign business, if it is good business.

Mr. McFADDEN. The Federal reserve system, by this ruling of the State Department here, has been deprived of that opportunity, Senator. I am going to read that now.

Senator WAGNER. Whose edict is this?

Mr. McFADDEN. The edict of Hon. Henry M. Stimson, Secretary of State. It is dated May 16, 1929:

In response to the statements which have appeared in the press in regard to the participation of any Federal reserve officials in the creation or management of the new proposed International Bank, I wish to make clear the position of this Government:

While we look with interest and sympathy upon the efforts being made by the committee of experts to suggest a solution and a settlement of the vexing question of German reparations, this Government does not desire to have any American official, directly or indirectly, participate in the collection of German reparations through the agency of this bank or otherwise. Ever since the close of the war the American Government has consistently taken this position; it has never accepted membership on the Reparations Commission; it declined to join the allied powers in the confiscation of the sequestered German property and the application of that property to its war claims. The comparatively small sums which it receives under the Dawes plan are applied solely to the settlement of the claims judicially ascertained by the Mixed Claims Commission (United States-Germany) in fulfillment of an agreement with Germany, and to the repayment of the expenses of the American Army of Occupation in Coblenz, which remained in such occupation on the request of both the allied nations and Germany. It does not now wish to take any step which would indicate a reversal of that attitude and for that reason it will not permit any officials of the Federal reserve system either to themselves serve or to select American representatives as members of the proposed international bank.

Senator CAREY. Does that refer to members of the Federal Reserve Board or an officer of a bank that is a member of the Federal reserve system?

Mr. McFADDEN. "Any officials of the Federal reserve system either to themselves serve or to select American representatives." That would include all of them, Senator.

Senator CAREY. That would not include an officer of a national bank, for instance, that was a member of the Federal reserve, would it? That would only refer to men occupying Government positions, would it not?

Mr. McFADDEN. It would pertain to all officers of the Federal reserve banks, any one of the 12 banks, or the Federal Reserve Board.

Senator CAREY. That is what I mean; just to Federal reserve banks.

Mr. McFADDEN. Yes.

Senator CAREY. It would not refer to an individual bank, such as the National City Bank?

Mr. McFADDEN. That question has never been raised. I do not imagine it would.

Senator WAGNER. Suppose that edict was proclaimed. What has that to do with this question here—as to whether Mr. Meyer is fit for this position or not?

Mr. McFadden. I am showing you that the policy Mr. Meyer advocated in 1920, which he reaffirmed to you here the other day, has a very material bearing on that.

Senator Wagner. You have stated that you have shown something——

Mr. McFadden. You are going to find the Federal reserve system synchronizing with these European banks to an extent that may be very disturbing; that is, if he carries out his policies; and he is very consistent, according to my observations.

Senator Brookhart. Of course, in his examination here he did not have any idea about any of these things, but the Congressman has found out that he really did have some ideas.

Senator Wagner. I do not think you ought to make the statement that Mr. Meyer stated anything falsely, or withheld any information from the committee. I think that is a very unfair implication.

Senator Brookhart. He said he did not have any opinion about them, and that is his statement. I find that he did have an opinion.

Senator Wagner. So far as I have been able to observe, he has been very candid.

Senator Brookhart. He did not so impress me.

Mr. Meyer. I would like to say this, that when I advocated the export authority of the War Finance Corporation before the committees of Congress in January or February, 1919, the Congress voted the measure, practically without any opposition, because it did not want the Government to continue to make loans to foreign governments. The loans of the War Finance Corporation to finance exports were not loans to foreigners. They were loans to American exporters, and loans to American banks that financed American exporters. When I advocated that measure, I called attention to the fact that our production during the war period—before we entered the war and while we were in it—had been turned, to an unusual and extraordinary degree, in the direction of supplying the people of Europe, military and civil, and that the armistice meant that unless we did something to provide a bridge of a temporary character, a breakdown in the exports of American products would come. I advocated that as a temporary expedient, for a limited period, I think of a year, but the loans were to be for an unusual period from a banking point of view, too long for the ordinary banker to carry, namely, from one to five years.

The emphasis was on the temporary character of the situation, and the proposal was intended as a temporary and emergency measure, and was passed as such. My testimony before the Senate Committee on Finance at that time makes that point perfectly clear, so that whatever my attitude was at that time, it concerned the peculiar conditions of that period, and has nothing at all to do with my views at the present time in connection with international banking or finance, and it can not be connected with it, however strenuous the endeavor to do so may be. I would like permission, Mr. Chairman, to introduce into the record my testimony before the Senate Committee on Finance at that time. It will make my view as to the temporary character of that measure very clear.

So far as lending money to Europe and other countries is concerned, I think I have stated already before the committee that I think we loaned much too much money in 1927 and 1928 to foreign countries, for the good of the people of this country.

Senator CAREY. Can you supply the part of the other hearings you want in the record?

Mr. MEYER. I would like the privilege of putting that part of my testimony in the record, and will do so at this time.

(The matter referred to is as follows:)

EXTRACT FROM STATEMENT OF MR. EUGENE MEYER, JR., MANAGING DIRECTOR, WAR FINANCE CORPORATION, AT HEARINGS BEFORE THE COMMITTEE ON FINANCE, UNITED STATES SENATE, SIXTY-FIFTH CONGRESS, THIRD SESSION, ON H. R. 16136, FEBRUARY 26, 1919

Mr. MEYER. As I stated, Mr. Chairman, before the Ways and Means Committee, at their hearing on the bill, a great many suggestions have been made during the war and since to extend and enlarge the functions of the War Finance Corporation. The directors have never been able to see their way clear to indorse any of these suggestions because they did not as a whole or in each case fit in with the purposes and the emergency character of the original act. But the condition of our foreign trade has seemed to the directors to be of such an emergency character and so important to the whole country as well as to the international situation, that after very carefully going into the matter we united unanimously in making a recommendation to the Secretary of the Treasury which was practically incorporated into the bill before you.

In order to picture the situation, I would like to go back to the beginning of the war in Europe. In the beginning of the European war a great and sudden collapse in our foreign trade occurred. The prices of our products fell in almost every direction, with the exception of wheat and certain chemicals and a few other products. The winter of 1914 was one of suffering to industry and labor alike.

The great material requirements of the Allies began to make themselves felt in the spring of 1915 and thereafter in ceaseless demand for limitless quantities, almost regardless of price, all of our products flowed steadily to the allied front in Europe.

The volume and value grew by leaps and bounds, and the absence of our normal export trade to the enemy countries, which was such a factor in the beginning of the war, soon disappeared as an influence upon our business situation.

Under the wild rush of activity involved in meeting the insatiable appetite of the all-consuming capacity of the allied armies and peoples, our industry ran at full speed.

At the outbreak of the war in 1914 we owed Europe great sums. These debts were represented by their holdings of our American investments, and by bankers' credits running into many hundreds of millions of dollars.

At first we shipped Europe large quantities of gold, but as European purchases mounted in volume and value we liquidated our banking indebtedness with these exported materials. Then we took back our securities in a steady stream. Next they shipped us large amounts of gold; later still great loans were floated in our investment market, some unsecured, but later with collateral security under their short-term obligations.

Then in 1917 we came into the war, and our Treasury furnished the money to finance the huge purchases of the allied governments. No possible way of financing the great volume of purchases for foreign governments in the proportions required could have been otherwise found.

Now military operations are over. Foreign war contracts have been canceled; our own war contracts are canceled; military and diplomatic reasons prevent the immediate resumption of trade with enemy countries. Not only are prices here tumbling, but in many branches business is stagnant.

The countries associated with us in the war have used up an important part of their resources in the long struggle, especially when we consider their resources from the point of view of international trade. They must economize nationally and work to regain their lost peace industries, as must we as well.

They have endured a longer and greater economic and financial strain than we. Left to the limits of their own resources it will take them long to build up their international commercial relations. Unless we extend credits to them they will be unable to buy from us largely until they can restore their exports and sell to us and to others.

There is no market here as yet to take their loans or to take over their holdings in investments in neutral countries. This will take time to develop.

We need at once, and on a large scale, an outlet for great quantities of our products. We can not sell, if we demand payment now, because our customers have neither the gold nor the goods nor securities marketable in this country with which to make payment. We should put our people in a position to extend credit for a long enough period of time to encourage and justify the purchase of our products.

Even long banking credit, as long as a year, would not meet the situation, because foreign countries can not, with sufficient confidence, foresee ability to pay within a year. But credits of longer periods than one year are beyond the realm of ordinary banking. This bill is designed to meet this unprecedented condition of the world's international trade, and should stimulate our bankers and our merchants to the greater courage and the prompter action that is necessary to meet the emergency. It is not designed to displace private enterprise or to put the Government permanently into general banking business. The amendment is limited as to time and as to purpose. It is intended, primarily, to help our own industry, our own labor, our own finance, and thus our own national well-being. Nevertheless, a prompt restoration of international trade will do much more; it will enable Europe to restore its industry and employment of labor, and thus to hasten its political and social peace. Unemployment and hunger are the surest sources of social disorder.

In extending credits at this time to foreign countries to enable our industries and theirs to resume normal activity promptly, I believe we would be making a most important contribution toward international peace and prosperity, and that the results arising would benefit alike the country extending the credits and the countries which receive them.

Mr. McFadden. I would like to add, in connection with that——

Mr. Meyer. What I had in mind was that until the buying power of Europe was restored to some degree, we ought to sell them more goods on credit, and I think at the time that the activity was discontinued we had applications from thoroughly responsible borrowers, American exporters and American institutions financing American exporters, for loans to finance the export of American commodities, largely cotton, to the extent of $75,000,000 or more. Of course, these loans could not be made because the activity was stopped. I thought at the time, and I still think, that that had a great deal to do with the suddenness and the extent of the breakdown in the cotton market which followed not long after. I think a decline in commodity prices to some extent at that time was unavoidable. I did not think it had to be so fast, or so great. I did not expect that it could be avoided entirely, but I felt that some exceptional measures were warranted by the exceptional conditions of a temporary character.

Senator Carey. Proceed, Mr. McFadden.

Mr. McFadden. It is loudly asserted to-day that the Federal Reserve Board should be autonomous. Great fear is expressed of political control over it. It is asserted that it should not be under the control of the Secretary of the Treasury or any other Government official, that it should not be an instrumentality of government and that its policy should not be a concern of the President's Cabinet. It is this view that Mr. Meyer takes when he refused to answer questions in a Senate committee as to his conception of the proper scope of the Federal reserve system.

Furthermore, the holders of this view believe that "It must be our aim, whenever we can safely do so, to place our vast banking strength freely at the disposal of other countries; this is but fair to the rest of the world and to ourselves."

Suppose the Senate confirms the nomination of a governor of the Federal Reserve Board without inquiring whether this is his view. And suppose that it is his view.

Then, as governor, he " will place our vast banking strength freely at the disposal of other countries," because he has the power to do so under the law as it now is.

At the disposal of what countries will he place this vast banking strength? Britain? France? Italy? Germany?

If he places it at the disposal of Britain and France, they will use it to give sanctions to the treaty of Versailles and to impose high reparation obligations upon Germany.

If he gives it to Germany, she can use it to free herself from the unjust obligations of the Versailles treaty.

He may give it to Italy to induce her to remain in political agreement with Britain and France—or to break with Britain and France and make some other combination.

He may come to the conclusion that Soviet Russia is worthy of being helped, and may place our vast banking strength freely at its disposal.

It may be used in fact to change the political map of the world, if the governor of the Federal Reserve Board so desires—provided he does not have to subordinate his policies to the expressed will of the Congress or of the President acting through the Secretary of the Treasury.

The question of American support of foreign governments, and of what foreign governments, is a political question. The decision is a function of political authority. How far " our vast banking credit " ought to be diverted from interior needs to foreign needs is also a political question.

If the United States Senate has definite views upon all these matters, then it is its right to know whether a candidate for the position of governor of the Federal Reserve Board is, or is not, in accordance with its views. If it finds that he is not in accordance with these views, then the Senate has the right to refuse confirmation. Under any circumstances, it has the right to know his views.

That Mr. Meyer is a person who will assume an aggresive leadership is described in the New York Times articles of September 5 and 6, 1930, at the time of Mr. Platt's resignation and Mr. Meyer's appointment, where it was stated that he is a person who will assume an aggressive leadership in having centralized policies carried out. Although repeatedly unwilling to tell you Senators what his policies are, he has evidently communicated them to other people. There is no reason why Mr. Meyer should not outline to you his contemplated plans. You have a right to know. His fitness for this job is being questioned, and his proposed operations are a determining factor. There are no such relationships—as has been argued in these hearings—in this instance as are comparable to that of the Supreme Court. There is much that this committee should know, and the Senate should know, in connection with this nomination, and your committee have been very mild and most unusually considerate in connection with this examination. It is my opinion that Mr. Meyer's policies will be very much like those of a person who wishes to dominate the system. That, I think, is the reason he does not care to tell this subcommittee what his policies are.

This is the first time a man with these monopolistic affiliations has been selected for governor or a member of the Federal Reserve Board. Mr. Meyer will completely dominate any board on which he sits. And I call your attention to the fact in this connection that he has repeatedly been pointing out to you the fact that he was simply one member of the board. I have observed closely and have been in a position to observe his domination of the War Finance Corporation activities, and, as Federal farm loan commissioner, the activities of the Federal Farm Loan Board. There was complete acquiescence and domination of the activities of both of these operations during his term of office. And we are facing now a complete reorganization of the Federal Reserve Board, one vacancy and another predicted, the filling of which I believe is being deferred until Mr. Meyer's nomination has been disposed of. If Mr. Meyer should be confirmed, these men will have to be men of whom Mr. Meyer approves.

Senator WAGNER. What do you mean by that? You say that these will have to be men of whom Mr. Meyer approves. Do you mean that Mr. Meyer is going to tell the President and the Senate whom to appoint?

Mr. McFADDEN. No; not that.

Senator WAGNER. What?

Mr. McFADDEN. There will not be harmony on the board unless he does approve of them. I only need to cite the other instances of the War Finance Corporation activities and the Federal Farm Loan Board in that respect.

Senator WAGNER. A lot of general statements have been made here without any support.

Mr. McFADDEN. That is a very specific statement, Senator.

Senator WAGNER. Just what do you mean? You say nobody can be appointed to that board unless Mr. Meyer approves. Just how is that going to be brought about? The President appoints, does he not?

Mr. McFADDEN. Yes.

Senator WAGNER. You mean that he will direct the President whom to appoint?

Mr. McFADDEN. I mean that a man will not be comfortable on that board that does not agree with Mr. Meyer.

Senator WAGNER. That does not happen until after he enters on his duties, does it?

Mr. McFADDEN. No, sir; it does not.

Senator BROOKHART. In that connection I remember the Congressman from Kansas, Mr. Strong, said that he was a candidate, and thought he would have been appointed if Mr. Meyer had been for him.

Mr. McFADDEN. As a matter of fact, the practice, I think, heretofore has been that the governor of the Federal Reserve Board is consulted with regard to appointments of members on the board, Senator.

In closing, Mr. Meyer should not be confirmed as governor of the Federal Reserve Board because of his intimate relationship with

Wall Street as a stock broker, speculator, promoter; because of his dominating position in the chemical and power industry, both personally and through his close family and business and financial relationship; and because of his close affiliations with Paul M. Warburg, Kuhn, Loeb & Co., Lazard-Freres, and J. P. Morgan & Co.

I am sorry I have taken so much time, Senators.

Senator CAREY. Mr. Meyer?

## STATEMENT OF EUGENE MEYER—Resumed

Mr. MEYER. Senator, this interesting discussion has covered such a wide field that it is rather difficult to take up many of the points. It involves industries, activities, and people I never heard of, and some I certainly do not know. There were one or two things, however, of which I made note and on which I shall comment.

I have already indicated to the committee my attitude about the War Finance Corporation being a temporary, a strictly temporary, institution. In fact, I felt strongly about that, Senators. The corporation was revived in aid of agriculture in January, 1921, by an overwhelming vote of both Houses of Congress, against the opposition of the chairman of the House Banking and Currency Committee. Its authority was then confined to export loans, but by an amendment approved August 24, 1921, it was given authority to make loans for agricultural purposes. Under that amendment, the corporations, as already stated in these hearings, proceeded to lend large amounts to country banks, cooperative marketing associations, and livestock loan companies. It might be interesting to recall that, when the amendment referred to was under consideration in Congress, an amendment was proposed by some of the people, to the effect that the War Finance Corporation should make direct loans to foreigners. As a matter of fact, that was a bone of very serious contention, and I was opposed to it. I did not want to have to do business, from the United States Government, with foreigners. I did not think it was right. I said at the time that it is impossible for the United States Government, or a United States Government agency, to go to the courts of foreign nations and sue either the governments or the citizens of such nations if loans were made to them and they should not be repaid. At any rate, I felt that the United States Government should not enter into direct relations with and make loans to foreign individuals or corporations or governments. We never did make any loans to them, although there was included in the law the power to do so under certain conditions.

In connection with these things, I want to say that Mr. Paul Warburg and I were in direct opposition on the policy of reviving the War Finance Corporation, so much so that Mr. Warburg made a report—or was one of a committee that made a report—condemning the resumption of operations by the corporation to aid in financing the export of American products. Hearing from a friend of mine, a newspaperman, that such a report was to be presented at a meeting of the Chamber of Commerce of New York, I appeared at the meeting and opposed it. In spite of the fact that it was the first time I had attended a meeting of the chamber and I had only five minutes to talk, I had the report, which I called at that time the New York bankers' report, turned down. Congress had passed a resolution to revive the War Finance Corporation, but the President had not yet acted on it.

I have never had any business relations with Mr. Paul Warburg in any shape, manner, or form.

While the so-called deflation policy referred to by Senator Brookhart, following the alleged secret meeting, which Mr. McFadden has praised so much, may have been a beautiful policy, it was not a policy that seemed to me right at the time, and I know there has been a great deal of criticism of it by the agricultural interests since. I do not care to revive old quarrels. As I said, Governor Harding, who was the head of the board at that time, is dead, and I do not believe there is any use in raking over old sores. As a matter of fact, whatever the policy was, it cut down our export business and helped to break down the price level to an unusual degree.

I can not go into the discussion of rumors and ghost stories in the newspapers. I may have bought, at some time in the past, some New York State bonds. I did not think, if I did, that it was a crime. The bonds were good, and the interest has always been paid. I forget why I bought them, or for whom, or to whom I sold them if I sold them.

Mr. McFadden. I would like to say, in that connection, that there is no criticism on that score. It was simply to show the activities of Mr. Warburg in the New York stock market.

Mr. Meyer. I took an oath, when I entered upon my duties, that I owned no stock in a national bank or a member bank, in accordance with the requirements of the law. I did not, and I do not, and I have not at any time since I have been working in the United States Government. There was not any prohibition in the War Finance Corporation act against such ownership, but, as that corporation had power to lend to banks, I imposed that prohibition on myself. At no time since I have been in Washington, whether I was in a financial activity or not, have I been the owner of any shares of any national bank, trust company, or member bank.

I just want to say that so far as the power interests are concerned, and the Schoellkopfs in Buffalo, they were not, as far as I know, at the time the Allied Chemical Co. was organized, interested in it or its subsidiaries.

I do not know the membership of the Marine Midland group, and I can not discuss who is in it and who is out of it.

On the question of short selling, and the article which I wrote at the request of Irving Fisher, when I was a pretty young and academic thinker in 1909, I think I have changed my mind quite a little. I do not think it is much good, and I think something ought to be done to curb and regulate it if it is being carried on to any such degree of abuse as is talked about. I am not sure that the publication of the figures of short sales might not be the answer, although nobody else has suggested it so far as I know.

I raised a question once, after a tour through the country, about the country-bank situation and what could be done. My recollection is that on that subject I did not commit myself very strongly, if at all. I raised the question as a question for study.

The banking structure of the country is the thing that I was trying to present to Mr. McFadden's committee in 1923. I analyzed and presented to the committee, at the time he refers to, some facts and figures that, so far as I knew, had never been compiled before. They were figures of the eligible nonmember banks, running into several thousand. The question was raised as to the desirability of offering the advantages of the system, and I remember I stated at that time that they should not be forced or dragooned into the Federal reserve system, but that if, on a basis of mutual interest and advantage, a larger membership in the Federal reserve system could be recruited, I thought it would be in the interest of sound banking in the United States and in the interest of agricultural districts. That grew out of a study of the conditions that lead to the collapse of 1921 in the country banks which, to the extent of 4,317, had borrowed from the War Finance Corporation under the agricultural credits act of 1921. We studied the conditions, and we had a great deal of sympathy with the problem. I did not know exactly what the solution was. I do not say I do now. I have followed it for many years. I have seen the difficulties in the banking structure, and I have had a general interest in them. The committee of the Senate that is studying the matter will undoubtedly get some very important facts before it gets through.

As to Mr. Pole's suggestion that Mr. McFadden assumes to identify with my own opinion, I told Mr. Pole, when he asked me what I thought of his suggestion, that I had nothing to say except that I think trade areas are very difficult to define, and that I could not commit myself to his proposition.

I think, gentlemen, those are the only points that have any bearing on the subject under consideration by this committee.

Senator Carey. Are there any questions that any member of the committee wants to ask?

Mr. Meyer. There is a lot of very interesting information in Mr. McFadden's statement, and some of it is not so.

Senator Carey. Senator Brookhart, have you any questions?

Senator Brookhart. Why should short sales be tolerated at all?

Mr. Meyer. I do not know that they should, Senator, but if they are, I do not think they should be allowed to go unrestricted and unregulated to the extent they have.

Senator Brookhart. Where can you regulate them and make them right?

Mr. Meyer. I do not know.

Senator Brookhart. Where is the dividing line between right and wrong?

Mr. Meyer. That legal aspect I have not studied. I am not a lawyer. I think the authorities in charge of the stock exchange can certainly publish the figures with regard to the volume of short selling.

Senator Brookhart. What good would that do?

Mr. Meyer. It would show what it amounted to. I think, when you have that information, you have something to work on. I have not studied the subject particularly.

Senator Brookhart. If you sell anything else you do not own. except stocks and bonds, it is obtaining money under false pretenses, which is a criminal offense.

Mr. MEYER. A farmer raising wheat in July expects to get a harvest in August, but he sells some for delivery in December. In one way it is short selling, and in another way it is not.

Senator BROOKHART. I never heard of a farmer doing that.

Mr. MEYER. I have, Senator.

Senator BROOKHART. I have heard of the board of trade selling the farmer's crop about fifteen hundred times for him, but I never heard of a farmer doing it himself.

Mr. MEYER. I have heard of farmers selling their crop in advance of its being harvested, and when the amount was undetermined.

Senator BROOKHART. How many nonmember banks are there now in the United States?

Mr. MEYER. Eligible nonmember banks, do you mean?

Senator BROOKHART. Yes.

Mr. MEYER. I have not the figure; I do not think anybody has it. Senator. It is quite a lot of work to get it up. It took me several weeks to get that figure in 1923. I know that the nonmember banks, eligible and ineligible, must total about 15,000, but included in that figure would be a considerable number that would be called ineligible to join the Federal reserve system under existing law.

Senator BROOKHART. Early in this hearing I asked you to make a study of Senator Glass's proposition to tax these sales. Would that stop this short selling?

Mr. MEYER. I do not know whether it would or not, Senator. I do not think it would, effectively. It might. As a matter of fact. I do not think that section of the bill is drawn in contemplation of short selling, particularly.

Senator BROOKHART. It was all sales.

Mr. MEYER. Yes.

Senator BROOKHART. But would it not stop this short selling, too?

Mr. MEYER. I have not thought of it in that connection.

Senator BROOKHART. Would not that act have two good purposes? Would it not produce a considerable amount of revenue, and would it not stop three-fourths of this stock gambling besides?

Mr. MEYER. As I said before, I would like to hear the testimony of people who know more about this than I do.

Senator BROOKHART. After all your experience on the stock exchange, you say to us still that you do not know anything about it.

Mr. MEYER. I do not know what that tax would do, or how effective it would be.

Senator BROOKHART. I asked your office, Mr. Meyer, to prepare for me a chart, using the one you presented to the committee, and putting two more lines on it.

Mr. MEYER. Yes. They are having it prepared. I think it will be ready this evening, or at any rate by to-morrow morning.

Senator BROOKHART. That is satisfactory. One line is to show the trend of the prices of all other commodities than agricultural commodities, and the other is the trend of stock prices all on the one chart.

Do you now have any idea of the amount of redeposits from one ordinary bank into another in the United States in total?

Mr. MEYER. No; I do not remember having seen any figures on that, Senator.

Senator BROOKHART. Do you have any idea of the amount in New York banks that they receive from other banks?

Mr. MEYER. I do not believe those figures are published.

Senator BROOKHART. Do you know whether they run to a greater amount than the deposits in the Federal reserve banks?

Mr. MEYER. Than the deposits in the New York Federal Reserve Bank, or all the Federal reserve banks?

Senator BROOKHART. All the Federal reserve banks.

Mr. MEYER. You mean the deposits of country banks in New York? Do they amount to more than the total reserves?

Senator BROOKHART. Yes.

Mr. MEYER. The total reserves are about $3,200,000,000, I think, or a little over. I do not think there is that amount deposited in New York by out-of-town banks. It might be, if you included foreign banks and domestic banks, but not the American banks. I could not give you an opinion on that, Senator. I do not happen to know.

Senator BROOKHART. Is there any way to determine the amount deposited there by the American banks?

Mr. MEYER. I do not know whether there is or not.

Senator BROOKHART. Of course, it varies a great deal at different times.

Mr. MEYER. Oh, yes. I do not know whether there are any figures compiled on that and published separately.

Senator BROOKHART. Those deposits from other banks make up a considerable portion of the deposits of the New York banks, do they not?

Mr. MEYER. They must run to a considerable figure. I do not know how much it is. Of course, a lot of the interior banks use Chicago and Kansas City as places for reserve deposits.

Senator BROOKHART. And then Chicago and Kansas City send it on to New York.

Mr. MEYER. They send some at times. It depends on the season a good deal, and the rate situation, and the demand in the interior.

Senator BROOKHART. Is it not true that about the only place where we have quick turnover and short-time investments on these margin stock deals is New York?

Mr. MEYER. No. Of course, banks all over the country invest a large amount of funds in short-term Treasury certificates; they also buy commercial paper on a very large scale when it is available.

Senator BROOKHART. These Treasury certificates run for what length of time?

Mr. MEYER. They run anywhere from three months to a year.

Senator BROOKHART. I am talking about something now that is 10 days or 30 days.

Mr. MEYER. They can sell them any time they want. They are just as liquid as if they matured in a short time.

Senator BROOKHART. Anything in the banking system is held to be liquid if it will sell on the stock exchange.

Mr. MEYER. No. These Treasury certificates are not sold on the stock exchange, so far as I know.

Senator BROOKHART. I am talking about other securities.

Mr. MEYER. I do not know. Sometimes you can not sell things on the stock exchange that are supposed to have a market. They do not always have an active market. Bonds sometimes have a good market, and at other times they do not. It is the same way with stocks and other commodities.

Senator BROOKHART. There were some banks out in my country that took some of these bonds—I think they were 30-year bonds—on the recommendation of the national-bank examiners, and at the same time many of their farmer loans were disapproved. Then later they lost about 30 per cent on these long-time bonds.

Mr. MEYER. I think the interior banks bought too many bonds in the period which I mentioned—1927 and 1928—much too many.

Senator BROOKHART. This whole system is working to draw the credit away from the interior and connect it into the big centers, is it not?

Mr. MEYER. At times it does, and at other times it works the other way around.

Senator BROOKHART. Should it not be arranged so that that would not happen at all?

Mr. MEYER. I would be glad to discuss that with you at length, Senator. I do not want to give an offhand opinion on it.

Senator BROOKHART. With all your experience and everything, have you not an opinion you can express right off on that?

Mr. MEYER. Not offhand, no; not as to a practical way to do it immediately. I think ways ought to be found to work it out. Perhaps some legislation would be helpful in that respect. It may be more a matter of administration.

Senator BROOKHART. Can you suggest some legislation that would be helpful?

Mr. MEYER. I have not any bills in my head at the moment. I think perhaps the Glass committee will develop some information on that.

Senator BROOKHART. Are you going to help them, or make suggestions to them as to the proper legislation?

Mr. MEYER. If they ask me, I shall be glad to, to the extent that I can.

Senator BROOKHART. Why do you object, then, to making similar suggestions to this committee?

Mr. MEYER. I would not object if I had any in my mind just at the moment. I am not here with a lot of patent novelties to introduce into the banking system.

Senator BROOKHART. If they ask you, you will be in the same state of mind. You will not have any more patent novelties than you have now.

Mr. MEYER. No. They will probably ask me what I think of this or that particular thing; and we have some committees at work studying some of these questions. I would like to know what their facts are, as they develop them, and the conclusions and the reasons. I am not quite so cocksure about myself on these things as you would like to make me think I am.

Senator BROOKHART. As I think you think.

Mr. MEYER. Senator, I am extremely diffident about forming definite opinions about important matters.

Senator BROOKHART. I have noticed that before this committee, at any rate.

Mr. MEYER. It is very sincere and genuine, Senator. I really do not like to have opinions unless I feel I have studied a subject very thoroughly, and I might say, so far as the gentlemen who are on our board, the Federal Reserve Board, and those who may come on are concerned, that I do not intend to recommend or interfere with the selection of any member. I do not want to. I have not the least desire to, and I would not be willing to if I were asked to. What Mr. Strong said the other day, he said in a joking way. If he was not joking, then I will say it is not so, because my recommendations would not prevail if I made them, in my opinion, and I will say they should not if they would. But I do not think there is the slightest probability of it, because I have not any to make, and do not intend to make any if I am asked.

Senator BROOKHART. I believe that is all I have.

Mr. MEYER. So that when you consider these other men who will be nominated, please understand that they are not my recommendations.

Senator BROOKHART. I would like to ask Mr. Bestor a question or two.

## STATEMENT OF PAUL BESTOR, FEDERAL FARM LOAN BUREAU, WASHINGTON, D. C.

Senator BROOKHART. Mr. Bestor, does the Federal Farm Loan Board try to control the election of directors of the joint-stock land banks from Washington?

Mr. BESTOR. No, Senator. The Farm Loan Board has nothing whatever to do with the selection of directors of the joint-stock land banks.

Senator BROOKHART. In connection with the recent election held a few days ago in Chicago, for this Chicago bank, here is a letter that was sent out by that bank, in which, in the last two paragraphs, there are quotations from the Federal Farm Loan Board. Were those statements sent out for the purpose of controlling that election from the Federal Farm Loan Board?

Mr. BESTOR. No, indeed Senator. The board is often asked what it thinks about a particular bank. Naturally, about all that the Farm Loan Board can say is something such as is said here. This paragraph that I see here says that this board has confidence in the present management of this particular bank. We sometimes make such statements as that, where the facts warrant it.

Senator BROOKHART. That letter was sent on the 17th of January. Here is another one, dated the 20th of January, with a letter from A. W. Mellon, chairman Federal Farm Loan Board. What about that?

Mr. BESTOR. May I have a moment to look it over, Senator?

Senator BROOHKART. Yes.

Senator WAGNER. What are the dates of these letters?

Senator BROOKHART. The 17th of January, and the 20th of January.

Senator WAGNER. Of this year?

Senator BROOKHART. Yes.

Mr. BESTOR. That telegram was sent in response to a telegram from Mr. Frank W. Blair, president of the Joint Stock Land Bankers Association.

Senator BROOKHART. He did not have anything to do with this Chicago bank. Why did it go to him, to be used in a stockholders meeting of the Chicago bank?

Mr. BESTOR. I was not on the board at the time of the reorganization of this particular bank, but I understod, from the testimony given here the other day—and I have heard it elsewhere—that a committee of the Joint Stock Land Bankers Association were active in securing what they regarded as stronger management for this bank, and that Mr. Blair was on that committee.

Senator BROOKHART. It has been charged, particularly by Senator Fletcher and others, that the Treasury was trying to control and dominate this system. Is not this a pretty strong indication that they are, in a very pointed way?

Mr. BESTOR. This circular seems to have been sent out by the directors of the Chicago Joint Stock Lank Bank, Mr. John E. Blunt, who is vice president of the Continental Illinois Bank & Trust Co.; Mr. James G. Alexander; Mr. Louis C. Kurtz, chairman of the board, Iowa-Des Moines National Bank & Trust Co.; and Mr. George M. Marshall, chairman of the board, First National Bank, Belvidere, Ill.; John W. Slacks, of Jackson & Curtis; and Mr. Robert Stevenson, of Kissell-Kinnicutt & Co.

Senator BROOKHART. But it contains a telegram or letter from A. W. Mellon, chairman of the board down here, and from the wording of that telegram and letter, it is for use in this identical stockholders meeting.

Mr. BESTOR. The circular speaks for itself, Senator. I think a number of you gentlemen may know Mr. Blair. He is president of a large commercial banking organization in Detroit, I believe, and president of a joint stock land bank also. [Reading:]

> Mr. Frank W. Blair, president of the Joint Stock Land Bankers Association has sent us—

(That is to the directors of the bank.)

> a copy of a telegram which he sent to Hon. A. W. Mellon, Secretary of the Treasury, as ex-officio Chairman of the Federal Farm Loan Board.

I think that speaks for itself.

Senator BROOKHART. This is Mr. Mellon's telegram to him, signed A. W. Mellon.

Mr. BESTOR. In response to Mr. Blair's telegram.

Senator BROOKHART. Yes; but he was not in this bank, and why should Mr. Mellon try to control the election of the directors in these banks, from down here in Washington?

Mr. BESTOR. It does not seem to me—I, of course, am not speaking for Mr. Mellon, but he received a telegram from the president of the Joint Stock Land Bankers Association in regard to the management of a particular bank. Would you say that because he answered to the effect that the management of the bank was regarded as capable, that that meant that the Farm Loan Board was endeavoring to control the election of the directors?

Senator BROOKHART. Here are two crowds of stockholders seeking to elect a board, and he mentions that in his telegram. Then he seeks to have one of them supported. What I want to know is if that is the policy that the Federal Farm Loan Board is pursuing to control these directors' meetings?

Mr. BESTOR. The Federal Farm Loan Board, Senator, makes no effort of any sort to control the directors.

Senator BROOKHART. He signs this as chairman of the Federal Farm Loan Board, in his official capacity.

Senator CAREY. Who signs it?

Senator BROOKHART. A. W. Mellon.

Mr. BESTOR. As I say, he received a telegram from Mr. Blair, and he answered it.

Senator WAGNER. Of course, this happened since Mr. Meyer left the board.

Senator BROOKHART. Yes.

Senator CAREY. You had better insert that telegram in the record.

Senator WAGNER. Do you really want it? It happened this year.

Senator GOLDSBOROUGH. 1931.

Senator WAGNER. We have this record pretty much filled with immaterial matter. I shall object to that.

Senator BROOKHART. I do not care to insert that to-night, but some time I think I will offer it.

Senator GOLDSBOROUGH. You do not offer it now?

Senator BROOKHART. Not at this time.

Senator GOLDSBOROUGH. Is there anything further?

Mr. BESTOR. Might I say that concerning the statements made yesterday with regard to the present Farm Loan Board, I do not wish to take the time of the committee, or go into it, but I wonder if I may submit a very brief statement. It is what was given to the press last night.

Senator CAREY. Permission is granted.

Mr. BESTOR [reading]:

> Mr. Rainey's statement grossly misrepresents the situation in the farm-loan system, and I want to say as emphatically as I know how that his attack on it was unwarranted and unjustified. I am at a loss to understand why a Member of Congress would undertake to discredit the farm-loan system.

Senator BROOKHART. His figures as to the prices of the bonds were all right, were they not?

Mr. BESTOR. You mean the joint stock land banks' bonds?

Senator BROOKHART. Yes.

Mr. BESTOR. He quoted only the lowest ones.

Senator BROOKHART. The average of all of them is about what now?

Mr. BESTOR. I do not know. I think I have a list here. I would say around 70 or better.

Senator BROOKHART. I think that is what you said before to the full committee. Do you want to put the list in the record? I do not particularly care for it.

Mr. BESTOR. Not particularly; no.

Senator CAREY. We will have an executive session of the committee.

(Whereupon, at 5 o'clock p. m., the committee went into executive session.)

# NOMINATION OF EUGENE MEYER TO BE A MEMBER OF THE FEDERAL RESERVE BOARD

**SATURDAY, FEBRUARY 7, 1931**

United States Senate,
Subcommittee of the Committee
on Banking and Currency,
*Washington, D. C.*

The subcommittee met, pursuant to adjournment of Friday, February 6, 1931, at 1 o'clock p. m., in the committee room of the Senate Committee on Military Affairs, Capitol Building; Senator Robert D. Carey, presiding.

Present: Senators Carey (chairman of the subcommittee), Brookhart, Wagner, and Fletcher.

Senator Carey: Senator Goldsborough is unavoidably absent. However, he authorized me to count him for a quorum and he also left instructions with me as to casting his vote, should there be a vote in committee during his absence.

Senator Carey. You will please be sworn, Mr. Pagan.

## STATEMENT OF OLIVER E. PAGAN, SPECIAL ASSISTANT TO THE ATTORNEY GENERAL, WASHINGTON, D. C.

(The witness was duly sworn by Senator Carey.)

Senator Carey. You are with the Department of Justice?

Mr. Pagan. Yes, sir.

Senator Carey. What is your position there?

Mr. Pagan. I am special assistant to the Attorney General.

Senator Carey. How long have you been with the Department?

Mr. Pagan. About 42 or 43 years. I have been up in the department here 28 years. I was Assistant United States Attorney at Chicago about 15 years before that, under the department.

Senator Brookhart. You had something to do with the Guy Huston prosecution out in Minneapolis?

Mr. Pagan. Yes, sir. I was appointed by the attorney general June 29, 1926. My appointment covered the Guy Huston case and the Cravens case at Kansas City.

Senator Brookhart. They are both in this one letter.

Mr. Pagan. Both in one appointment, yes.

Senator Fletcher. Are you going to put that in the record?

Senator Carey. I do not believe it is necessary.

Senator Brookhart. In reference to the Huston case, first, who were the complaining parties?

Mr. PAGAN. Well, I never knew that. I was at Kansas City working on the Cravens case, and Mr. Luhring, now Justice Luhring, who was in charge of the criminal division here, phoned me to go up to St. Paul, that the Huston——

Senator BROOKHART. What position did he have then?

Mr. PAGAN. He was assistant attorney general in charge of criminal prosecutions. He phoned me to go up to St. Paul. He said the grand jury was in session there the next day on this Huston matter, and he told me that he did not want any indictment up there unless there was a case. That was a little unusual, because he knows that I am not in favor of indictments unless there is a case anyway, but he told me that, and I went on the train and went up there. The next morning he called me up from here, at St. Paul, and told me that again, and he wanted to speak to the district attorney, Mr. French, and he told him the same thing. I told him that I did not know anything about the facts of that case. I did not suppose it would come up so soon. They were too busy to stop and tell me about the case, so I though that all I could do would be to cross-examine the witnesses before the grand jury to see if there was a case, if I thought there was anything questionable. He said for me to do that, and we went in the grand jury room and I did do that, but it seems that some of the Government witnesses there—I think these were examiners for the Department of Justice—seemed to think that I was obstructing the proceedings.

Senator BROOKHART. Were they from the Department of Justice or the Treasury, these examiners?

Mr. PAGAN. We had two accountants there from the Department of Justice and one secret-service man from the Treasury. So I found that I could not make any headway toward finding out the true facts. They seemed to want to get an indictment, whether or no, and so I just quit there and went down to Kansas City again. Down at Kansas City, in the Cravens case, I had the same trouble. They had a man there by the name of Stevenson, who represented the Farm Loan Board. I think he was an examiner. Also there was a man there named Cochran, who was a post-office inspector. I think he was in charge there. They seemed to be unusually enthusiastic and desirous of indicting somebody. I tried to find out what they had, and everything we would inquire into had not been investigated far enough. They had expert accountants on the books. That bank had just put out over $50,000,000 worth of bonds and stocks, and it was a pretty big job, and they could not really find out anything about the books to a certainty, they said, until the next spring, but they wanted to indict somebody right then, and every case they put up to me did not seem to have anything in it, nothing that we could prove in the criminal courts, so I refused to have anything further to do with that case.

Senator CAREY. Were not two men convicted in the Kansas City case afterwards?

Mr. PAGAN. Afterwards; yes, sir. I do not know whether they had done anything wrong before this or whether they did it after the prosecution was started. It certainly broke up the bank.

Senator CAREY. I understood they were convicted on some 80 counts in the Kansas City case.

Mr. PAGAN. I do not know how many counts. It is in the Court of Appeals now. I was going to say that in the St. Paul case they went on, and wanted Judge Rush, special assistant under the department, to go up there. The district attorney said he thought I was right about the matter, and didn't want to have anything more to do with it, so they sent Judge Rush up there, and evidently they did not find any violation of the banking laws, so they indicted Guy Huston under the postal laws, he and some of the members of the Minnesota Bank, officers of the bank. They afterwards tried them and convicted them. Judge Cant sentenced Guy Huston, I think, to 9 years and the bank officers, who were supposed to be in with him on this scheme of selling stocks, to some slight punishment. When that case got to the court of appeals, the court reversed it in such a way that it could not be tried again, and intimated that it ought never to have gone to the jury, that the court ought never to have let it go to the jury.

Senator BROOKHART. The language is, "There is no substantial evidence of guilt in the case." I have that opinion on my desk.

Mr. PAGAN. I did not think there was any evidence warranting an indictment, and it turned out so, so far as the postal case was concerned, but I noticed that the unusual thing about the cases at St. Paul and Kansas City, both cases, was that some of these gentlemen were excessively enthusiastic and in earnest about prosecuting somebody for something. Who touched them up, or whether they were just green, new officials, and overly keen, I don't know.

Senator BROOKHART. Was this man Stevenson connected with the St. Paul matter, too?

Mr. PAGAN. He was, but he was not up there at the time I was there.

Senator BROOKHART. But he had been investigating for the Farm Loan Board?

Mr. PAGAN. Yes. He represented the Farm Loan Board in both those cases, I think.

Senator CAREY. Was he a regular employee of the board, or a special investigator?

Mr. PAGAN. Stevenson?

Senator CAREY. Yes.

Mr. PAGAN. I do not know. I understood that he was a regular examiner. Before that he had been in charge of some farm-loan bank at Baltimore, I believe. Why he got out of that, I don't know, but he was there. He and Cochran were very angry with me because I would not help them on these cases.

Senator FLETCHER. What time was it, Judge Pagan, that you were in St. Paul on this business?

Mr. PAGAN. My appointment is dated in June. I went up to Kansas City about that time, June 29, and I was up there three or four weeks.

Senator WAGNER. 1926?

Mr. PAGAN. 1926. I was at Kansas City three or four weeks, and then went up to St. Paul for about a week, and then went back to Kansas City. I did not stay there very long. We had the grand jury there, and Stevenson and Cochran and the Government accountant, Bennett, presented the case to the grand jury. I do not think there were any indictments at that time. Some time after they got some indictments there.

Senator BROOKHART. They got none from that grand jury at that time?

Mr. PAGAN. I do not believe they did.

Senator BROOKHART. That is my understanding of it. It was another grand jury.

Senator WAGNER. Where is Cochran employed?

Mr. PAGAN. He was a post-office inspector at Kansas City then, and I think he is now. He is in charge there. I can tell you about one of the cases they put up to me there, if you care to hear it.

Senator BROOKHART. I would like to have one sample of it.

Mr. PAGAN. I said, "What have you got?" We were in the district attorney's library.

Senator WAGNER. May I make this suggestion? I am hoping to confine ourselves to what we are here for. Do you not think we ought to find out, first, whether or not these charges that Judge Pagan makes as to the unusual activity on the part of somebody, were in any way instigated or directed by Mr. Meyer? If they were not, while it may be a very interesting matter to go into——

Senator BROOKHART. I think that is very proper, but I do not know that Judge Pagan can give us any direct evidence on that. I will be glad if he can.

Mr. PAGAN. No.

Senator BROOKHART. This man Stevenson, without any doubt, could, because he was the man——

Senator WAGNER. Stevenson was what?

Mr. PAGAN. He was the representative of the Farm Loan Board pushing these cases.

Senator WAGNER. What do you mean, representative?

Mr. PAGAN. He worked with them.

Senator WAGNER. Was he an attorney?

Mr. PAGAN. I think he was what they call an examiner, a Farm Loan Board representative who goes out and pokes into the banks and tries to find out whether they are running according to law. I suppose they are like national bank examiners.

Senator WAGNER. What I wanted to find out, Judge, was this: At the time your appointment was made and these proceedings were instituted Mr. Meyer was not a member of the board. I think that is so, is it not?

Senator BROOKHART. Shortly afterwards he became a member.

Senator WAGNER. But he was not then.

Senator BROOKHART. Not at that time; that is true.

Senator WAGNER. As a matter of fact, I think, according to his testimony, he was in Europe at that particular time.

Senator BROOKHART. He might have been in Europe a little while, but, Senator——

Senator WAGNER. Listen, please——

Senator BROOKHART. He has, himself, testified to some associations there before he went on the board with Mr. Williams. He, himself, testified to associations with Mr. Williams, a member of the board.

Senator WAGNER. As to what?

Senator BROOKHART. As to their duties. He went down and helped that cotton pool before he went on the board. He has testified to that himself. He was active on this board, and practically running it for quite a while before he went on it.

Senator CAREY. He did not testify as to that?

Senator BROOKHART. He testified he went with Williams down South, on the cotton pool, and that was before he went on the board.

Senator CAREY. That was in connection with the War Finance Corporation; was it not?

Senator BROOKHART. No; it was in reference to the intermediate credit bank pool, after he quit the War Finance Corporation.

Mr. PAGAN. I never heard of Mr. Meyer at that time, but my understanding was that Assistant Secretary of the Treasury Dewey was in charge of the Farm Loan Board business.

Senator WAGNER. All right; that has nothing to do with Mr. Meyer.

Senator BROOKHART. Again——

Senator FLETCHER. He is representing the Treasury.

Mr. PAGAN. I do not know why Mr. Luhring cautioned me about that, unless it was he thought Mr. Dewey or somebody was overly anxious to indict people.

Senator WAGNER. I am interested in these instructions. Are there times when it is the policy of the Attorney General's office, or the Department of Justice, to secure indictments against individuals without any evidence to support them?

Mr. PAGAN. I am sorry to say that we have attorneys, especially newly appointed attorneys, who seem to think that they have to get an indictment against the people they are appointed to prosecute.

Senator WAGNER. I thought it was a rather unique instruction.

Mr. PAGAN. That is not my work. I will get an indictment if the law authorizes it.

Senator WAGNER. Didn't you think it was rather unique to instruct you that you must not get an indictment unless the facts justified it ?

Mr. PAGAN. Yes. That is what I say. It looks as though there was something wrong back of the prosecution that they did not tell me about. I did not know what it was or who was back of it.

Senator CAREY. Were you removed from this prosecution?

Mr. PAGAN. No; I just quit it.

Senator CAREY. What were your reasons for quitting?

Mr. PAGAN. Because I did not find anything to do in it.

Senator FLETCHER. You found no violations of law?

Mr. PAGAN. No violations of law at that time; but a few months after, after they had gone through the books, they did get indictments at Kansas City, but never have gotten any indictments in Minnesota under the banking laws, but the prosecution at Kansas City, when I looked into it, seemed to be a prosecution to get Cravens and Miss Todd, who was his right-hand man, so to speak, on charges that they had done things with intent to injure the bank, but I could not see but that they were doing what the Farm Loan Board had told them to do, in getting rid of bad loans, and whatever they were doing was calculated to help the bank. For instance, one charge they wanted me to draw an indictment on was a charge of $50,000 embezzlement against Cravens. Well, when did he take this? How did he get it? He drew a check on the bank and deposited in his private account in another bank. Did the bank owe him anything, the farm-loan bank? Well, we don't know. He said that he had put $600,000 of his own money in the farm-loan bank and that the farm-loan bank owed him that amount at that time. "Well," I said, "then it does not seem to me that we could prove any embezzlement on him."

Senator FLETCHER. When was that indictment found out there, do you know, Judge?

Mr. PAGAN. I think it was in the winter or spring of 1926 or 1927. I was going to tell you about the Postal case they put to me——

Senator FLETCHER. It must have been 1927.

Mr. PAGAN. Very likely it was. This was in the fall of 1926 that I was there.

Senator FLETCHER. It was after that that the indictment was found.

Mr. PAGAN. It was after that. I don't just remember when.

Senator FLETCHER. Some time in 1927.

Mr. PAGAN. Yes; I think so. They told me at that time they would not have the books completely examined until spring, so that I think it was along toward spring that they finally got those indictments.

Senator FLETCHER. There were some five banks involved about that time, under Mr. Dewey's seizure as Secretary of the Treasury, putting Treasury agents in some five banks. You had nothing to do with any of that?

Mr. PAGAN. No; I had nothing to do with anything except those two.

Senator BROOKHART. You started to tell us about some other transactions.

Mr. PAGAN. They said they had a postal-fraud case there at Kansas City—Cochran, the inspector, and Stevenson. I asked them what it was. They said that the bank of Cravens had gone up to Chicago and borrowed $150,000 from the First National Bank of Chicago. They were then buying some stock in the Fort Worth or Wichita bank, I believe, and they wanted money for that purpose, to buy it for the farm-loan bank at Kansas City, so they went up there and borrowed $150,000; I don't remember just the amount; it was something like that—from the First National Bank of Chicago, and put up stock of the Kansas City bank as security. Well, what about that?

Well, the stock was issued without authority of the Farm Loan Board. I said, "These banks issue stock, and it is afterwards approved by the Farm Loan Board as a matter of practice, isn't it?" Well, yes; they do; but they had no business to issue it. "Well," I said, "they did issue it. The bank issued it. It was the bank's stock. It was signed and issued by the officers of the bank. It was good between them and the First National Bank of Chicago, was it not—good security?" They did not think so. They thought it was not good, and that they were trying to cheat the First National Bank of Chicago. I said, "What happened? How much did the First National Bank of Chicago lose?" They didn't lose anything. They paid this up afterwards and got their stock back.

"Well," I said, "where is the fraud?" He said they used the mails to carry on this transaction. Where is the fraud? The first earmark of fraud is that somebody is cheated or loses something. Well, it was a fraud. I said, "You might think it is a fraud, but I do not, and I do not see anything in that. I have drawn a great many postal fraud indictments in my time. I do not see any chance of prosecuting anybody on such a thing as that."

Senator CAREY. In connection with these investigations, did anybody ever mention Mr. Eugene Meyer as being interested in them?

Mr. PAGAN. No, sir; I never heard his name mentioned.

Senator FLETCHER. Did you ever talk with Mr. Dewey?

Mr. PAGAN. I did go over and talk to him one time, yes, sir; but he did not seem interested in what I had to say. Mr. Luhring sent me over to talk to him. I am inclined to think Mr. Luhring thought that we had better be careful about indicting people of that sort, on account of the injury that would come to stockholders. There was a billion and half dollars of money invested in the farm-loan bank stocks, and bonds, at that time, and a drop of 1 per cent in them would mean $15,000,000 loss to the investors. He was worried for fear they might make some mistake about this. Whether he was worried because of what he heard from Dewey, or these farm-loan officials that came there to see him, I don't know.

Senator FLETCHER. What was Mr. Dewey's attitude? Was he urging you to go ahead with the prosecutions?

Mr. PAGAN. No, sir. He was not urging me, of course. He would not give me any orders. He was a Treasury officer.

Senator CAREY. Did Mr. Dewey seem very much interested in these prosecutions?

Mr. PAGAN. Yes, sir. He seemed to be interested in them. I understood that it was his business to supervise the Farm Loan Board. The Farm Loan Board is only a bureau under the Treasury Department, and it had to be under somebody, the Attorney General or some assistant. I think the work was divided up that way. Whether he had any ulterior motive or wrong information, I do not know—I am referring to Mr. Dewey.

Senator BROOKHART. How do you spell Mr. Stevenson's name?

Mr. PAGAN. S-t-e-v-e-n-s-o-n. Not long after I was connected with that case in that way, he went to South America, or some South American Government employed him in some financial situation there. I don't know what it was. I have never seen him since.

Senator BROOKHART. You do not know where he is now?

Mr. PAGAN. No.

Senator BROOKHART. Where is Mr. Luhring now? Is he still in the department?

Mr. PAGAN. He is on the supreme bench here in the District. He has been there about a year.

Senator BROOKHART. How do you spell his name?

Mr. PAGAN. L-u-h-r-i-n-g.

Senator FLETCHER. After you had convinced yourself that there was no grounds for criminal prosecution out there at Kansas City and St. Paul, then you ceased to be connected with the business any further?

Mr. PAGAN. With those cases; yes, sir. I had other cases. It may be they did not want me because I was not so keen to take hold of it.

Senator FLETCHER. The situation, as I understand it, Judge, was about this: This Farm Loan Bureau was supposed to be an independent bureau of the Governrment. It was created that way under the farm loan act. The Secretary of the Treasury is ex officio chairman of the board, but he has only one vote on the board. The Secretary, being naturally engaged with other more important things, designated Mr. Dewey to go down and sit in with the board.

Mr. PAGAN. I do not know that he sat in with them.

Senator FLETCHER. Assuming that to be true, that was the case. He did go there and actively participate in their proceedings as far as he could, offering resolutions, and this, that, and the other; and it was Mr. Dewey who ordered the Treasury agents into these five banks just before you were out there.

Mr. PAGAN. I do not know that, but I should imagine that that would be the regular course of business.

Senator FLETCHER. That is his connection with the Farm Loan Board. He was representing the Secretary of the Treasury when he attended to that business.

Mr. PAGAN. I do not think it would be necessary for Mr. Dewey to give any orders in such a case. The Farm Loan Board employed these men, and it was their duty to supervise all these banks, and they might well send them out without Mr. Dewey saying or knowing anything about it.

Senator FLETCHER. I understand that; but I am trying to show you how Mr. Dewey was interested, because he had been representing the Secretary in the proceedings of the Federal Farm Loan Board. This board did not authorize or know of his placing Treasury agents in these five banks when it was done. The law did not authorize it.

Mr. PAGAN. He may may have suggested everything they did, to them. I don't know.

Senator WAGNER. You do not know anything about that.

Mr. PAGAN. No.

Senator CAREY. Do you remember who was farm loan commissioner at that time? Was it Governor Cooper, or had he retired?

Mr. PAGAN. Cooper was there; yes, sir. He went out afterwards, I believe.

Senator BROOKHART. He was not in sympathy with these prosecutions?

Mr. PAGAN. That was my understanding.

Senator BROOKHART. But Mr. Williams, on the board, was?

Mr. PAGAN. Yes. From what I heard—I don't know anything about it, and I never went before the board, but from what I heard at the time they had some disagreements there. What the occasion of it was, I do not know.

Senator BROOKHART. Governor Cooper in the trial testified for Guy Huston and the other defendants.

Mr. PAGAN. I believe he did.

Senator BROOKHART. And Mr. Williams attended the trial all the time against him.

Mr. PAGAN. I have knowledge of the kind of suit they had against Guy Huston, if you care to hear about that—what the case was, and what they charged him with.

Senator BROOKHART. I would be glad to have it, briefly.

Mr. PAGAN. It seems that the farm-loan banks, like all other banks, got bad loans sometimes.

Senator BROOKHART. In that case the appraisers were from the Farm Loan Board down here at Washington, and they would be the ones that would fix the values as a basis of the loans all the time.

Mr. PAGAN. They had a representative, the depositary of the loan.

Senator BROOKHART. Under the law the appraisers were all from the Farm Loan Board.

Mr. PAGAN. Yes, sir. They were under the Farm Loan Board, but this Minnesota bank, like all other banks, had some bad loans, a small percentage compared with private loans companies, as I understood at the time, but it was at least the usual percentage of bad loans that they had, probably on account of a slump in farm values after the war. The farmers did not pay their loans, and the Farm Loan Board was pushing them, the same as they did the Kansas City Bank, to get rid of those bad loans.

Senator WAGNER. What time is this you are speaking of now? Was this prior to the occasion——

Mr. PAGAN. This was along about this time, or a few months later, early in 1927, I should say. They were pushing them to get rid of these bad loans. People did not want to buy mortgages on farms. Under the law they were supposed to lend only about 50 per cent of the value of the farm, but a lot of farmers were ready to give up their farms.

Senator BROOKHART. They could not pay their interest.

Mr. PAGAN. They could not pay the mortgage. The farm loan bank could not seem to find any market for these mortgages. Foreclosing out in that country is slow business, because they have such long periods of redemption in some of those States that it was not practical to foreclose, and yet the Farm Loan Board pushed them to foreclose and mark them off, and get something out of them. They found that the farmers would be willing to convey their equity to somebody—anybody in the bank they would pick out—if they would pay them a little something for signing the deed, which would save the expense of foreclosure, and so forth. So they would get farmers to convey their farms to somebody in the bank, with the idea of making a sale when they got a customer. Guy Huston saw an opportunity of real estate speculation. That is to say, he thought that if he could get up a company and sell stock in it, he had a broker's office down in New York, I believe, and he had customers throughout the East who were anxious to buy such things. He thought if he could get up a company and sell stock and use the money to buy good pieces of farm land and hold them a little while until the market was better, they could make something on it. He thought it was a reasonable speculation. Anyway, they organized a company on the side in order to do that thing, and at the same time satisfy the Farm Loan Board by getting rid of these farms on which they had bad loans. So they organized that company.

Of course, they used the mails to sell these stocks, to correspond with one another, and so forth. It did not pan out so well. Although they had no evidence that Guy Huston or anybody else connected with that stock company was cheating anybody, they indicted them for using the mails to defraud, and when we were before the grand jury there at St. Paul, there was an accountant there who did not represent the Government, did not work for the Government, did not work for the Farm Loan Board, but he represented the people who had bought stock in this company. They had employed this accountant to look at the condition of the books, and so I asked him what the books showed about the standing of the company at that time. He said, as I remember it,

they got in about half a million dollars, but, as I figure it, their present worth is only about $450,000. They are shy.

Senator WAGNER. Let me see if I understand that, Judge. Mr. Huston was president of one of these banks, was he not?

Mr. PAGAN. He was president of the bank at Chicago, the first one organized under the law, and the biggest one then and now, as I understand it.

Senator FLETCHER. It is a joint-stock land bank.

Mr. PAGAN. They did not find anything wrong with his Farm Loan bank in Chicago.

Senator WAGNER. I wanted to understand clearly his position. As president, he stood in a fiduciary relationship with the stockholders of the bank and the depositors and lenders, and all that.

Mr. PAGAN. The Minnesota Bank?

Senator WAGNER. The bank of which he was president.

Mr. PAGAN. Yes.

Senator FLETCHER. There were no depositors.

Mr. PAGAN. There was never any complaint against that bank, however.

Senator WAGNER. I understand. In the course of their business, they did purchase some properties upon which they had loaned money.

Mr. PAGAN. The Minnesota bank?

Senator WAGNER. I am speaking about the bank of which he was president.

Mr. PAGAN. They did not. That bank had nothing whatever to do with any of this trouble.

Senator WAGNER. I see. Where did Mr. Huston get the information that there was this opportunity to speculate in real estate?

Mr. PAGAN. He knew all the people who organized farm-loan banks around that part of the country, because he organized the first one of them, and they all wrote to him, or were acquainted with him, and asked his advice about how to organize and run their banks. I suppose they wrote to him occasionally about everything and anything. Anyway, he did become interested with them in organizing that side company to take these farms off the hands of the bank.

Senator WAGNER. I will get to that in a minute, but I wanted to find out where he got this information as to the opportunities to buy farm lands?

Mr. PAGAN. I don't know. I suppose he was well posted and knew that there were such opportunities.

Senator WAGNER. Because of his contact with the business, which the farm-loan banks were doing, is that true?

Mr. PAGAN. He was a good banker, and I suppose he knew all about everything that was going on in that part of the country.

Senator WAGNER. He must have known that some of these properties in which title was transferred to the bank to satisfy the loans, were, in his opinion, cheaply acquired.

Mr. PAGAN. I have no doubt he knew that was true there, and everywhere else in the West.

Senator WAGNER. Then he organized a separate corporation, sold stock in that corporation, and, with the money that he got, he purchased these properties.

Mr. PAGAN. Purchased the properties.

Senator WAGNER. That was not so much to help the farmer whose property had been taken away from him.

Mr. PAGAN. No.

Senator WAGNER. But to make a profit for this particular stock company.

Mr. PAGAN. And, at the same time——

Senator WAGNER. That was not any altruistic proposition to help the farmer.

Mr. PAGAN. No.

Senator WAGNER. Rather it was to take the farmer's property away from him, was it not?

Mr. PAGAN. It was a business proposition.

Senator WAGNER. You call it a business proposition. You may characterize it as you wish.

Mr. PAGAN. He was trying to help the farm-loan bank, though. They were all trying to do that.

Senator WAGNER. I do not see that he was trying to help anybody. He was trying to make money out of this transaction, was he not?

Mr. PAGAN. That is right.

Senator WAGNER. I got the intimation here that this was an altruistic proposition.

Mr. PAGAN. I did not say so.

Senator WAGNER. I know you did not say so. Did you examine the records of this particular corporation that was organized?

Mr. PAGAN. I had nothing to do with that kind of a case. I was there in the bank case, but nothing came of it at the time I was there.

Senator WAGNER. I understand that, but I was just interested in this proposition. They were $50,000 short, you say?

Mr. PAGAN. He thought his valuation of the farms they had would show a loss at that time.

Senator WAGNER. I understood you to say this corporation Mr. Huston organized sold $500,000 worth of stock.

Mr. PAGAN. Yes, sir; about that, I believe.

Senator WAGNER. Now, how much of this money was used to purchase property?

Mr. PAGAN. I suppose all of it.

Senator WAGNER. Didn't you say that the accountants were unable to find a $50,000 portion of this fund?

Mr. PAGAN. No; I said the accountant, who was independent of any Government influence, said that the value of the properties they held in exchange for the money they got from this stock was only about $450,000. It was something a little less, but what I was looking for was fraud. He had no evidence that Guy Huston had stolen any of this money.

Senator WAGNER. I am not talking about that either. The books must have shown exactly what was paid for the property which they purchased.

Mr. PAGAN. No doubt they did.

Senator WAGNER. So that you could easily find out how much of this money was actually used for the purchase of property and what happened to the difference.

Mr. PAGAN. That was up to the people who prosecuted him under the postal laws for that thing, but evidently they did not find anything because he was acquitted.

Senator WAGNER. I assume, further, that you do not know all the facts in connection with it, but it was not any altruistic undertaking. That is what I mean.

Mr. PAGAN. All I know about it is that I read the indictment. Judge Rush, an old friend of mine, procured the indictment and showed it to me.

Senator WAGNER. I do not know whether you are right or wrong about that. I am not concerned with it.

Mr. PAGAN. I only know what that accountant told me, before the grand jury that was called to investigate the bank situation, of which nothing came at that time, or ever has come in Minnesota, so far as I know.

Senator BROOKHART. The thing, Judge, that is important in the situation from our standpoint here is that the Farm Loan Board, from down here, was urging the foreclosure of these mortgages and the sale of this land.

Mr. PAGAN. Yes.

Senator BROOKHART. There is no doubt about that, is there?

Mr. PAGAN. There is no doubt about that, but they do that with national banks, farm-loan banks, and all kinds of banks.

Senator BROOKHART. Under the law there is a 2-year moratorium they can apply if they want to.

Mr. PAGAN. I think it is more a matter of policy with them than law. They can be rigid at times and lenient at times, depending upon the circumstances.

Senator BROOKHART. As you understand, the Minnesota Farm Loan Bank was not Mr. Huston's bank.

Mr. PAGAN. No, sir.

Senator BROOKHART. It was another bank. They did not want to foreclose these mortgages. They were doing it under the orders of the Farm Loan Board down here.

Mr. PAGAN. They were trying to get rid of bad loans, because the Farm Loan Board told them to. I suppose they would have held on to them until the farmers got in better shape.

Senator BROOKHART. That is what I mean.

Mr. PAGAN. I suppose so. I do not know. They had to get rid of these loans because the Farm Loan Board told them to. The Farm Loan Board, or the Comptroller in the Treasury, who has supervision of the national banks, in the same way could close a bank up if they do not obey their orders, as I understand it. It is no crime to have bad loans, but the bankers have to comply with the orders of the comptroller, or the Farm Loan Board, or else they may close them up.

Senator CAREY. Are there any further questions?

Senator BROOKHART. I believe I have nothing further.

Senator FLETCHER. You never had any conversation with Mr. Meyer about this?

Mr. PAGAN. No, sir.

Senator WAGNER. You never heard of him in connection with it?

Mr. PAGAN. I did not. He was in the War Finance Corporation, and I had some cases under that law. I had one down in Arizona, but whether he was a member of the board at the time I had the cases, I don't know, but I had heard about Mr. Meyer for a long time.

Senator WAGNER. I mean, of course, in connection with these prosecutions you are speaking of.

Mr. PAGAN. Oh, no sir. I never heard of him in connection with them.

Senator FLETCHER. Did you prosecute any cases under Mr. Meyer for the War Finance Corporation?

Mr. PAGAN. I had one case down in Arizona, but whether he was on the corporation at that time I don't know. I remember Mr. Mondell, of Wyoming, was interested in that at the time, and Mr. Starek. I do not know whether he was on the War Finance Corporation or not.

Mr. CAREY. The hearing is closed.

(Whereupon, at 1.45 o'clock, p. m., the subcommittee went into executive session.)

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